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The Accountant

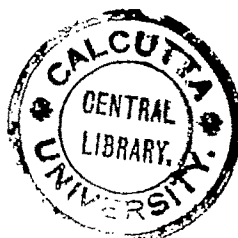
RECOGNIZED WEEKLY ORGAN FOR CHARTERED ACCOUNTANTS
AND ACCOUNTANCY THROUGHOUT THE WORLD

P 14057



GENERAL INDEX

VOLUME CXXIX - JULY to DECEMBER 1953



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INDEX TO THE ACCOUNTANT

FROM JULY TO DECEMBER 1953

VOL. CXXIX

To facilitate reference to this volume, many of the page numbers have italic letters added, indicating:

<i>a</i> .. Articles	<i>l</i> .. Lectures, Addresses, Debates, etc.	<i>f</i> .. Finance and Com.
<i>c</i> .. Correspondence	<i>wn</i> .. Weekly Notes	<i>p</i> .. In Parliament

	PAGE
Accountancy and Company Finance (<i>Oliver Lyttelton, D.S.O., M.C., M.P.</i>) ..	601
" of J. M. Keynes ..	49c 81c 112c 176c
" on the Wireless ..	80c
" Qualifications ..	50c 79c
Accountant and the Farmer (<i>R. W. Smith, O.B.E., T.D., F.C.A.</i>) ..	4a 32a 70a 94a 395c
" as Financial Adviser (<i>K. A. E. Moore, F.C.A.</i>) ..	430l 471l
Accountant, The, Annual Award ..	489a 512 674 700 730
Accountants' Christian Fellowship ..	266c 288c 341c 695c
" Clerks: Co-ordination of the Profession ..	22c
" Crossword (<i>Kenneth Trickett, A.S.A.A.</i>) ..	144 180 729
" in South Africa, British ..	140w
" Slide-rules for (<i>R. Robert, A.C.I.S.</i>) ..	383a
" Unqualified ..	79c 141c
" Working Papers ..	741w 89a 457
Accountants' Fees and Profits (Sproull) ..	88
Accounting Conference, Third Inter-American, 1954 ..	398
" for Goods in Transit ..	418c 530c
" Inflation ..	20c 49c 79c 139c 140c 234c 266c 340c
" Hall of Fame ..	59
" Principles: Historic Costs Defended ..	20c 79c
" Profession in the United States, Organization and Activities of the (<i>John L. Carey</i>) ..	251l
" Research into Retail Trade ..	277l 305l
" Theory, Recommendations on (<i>W. T. Baxter, Professor of Accounting, University of London</i>) ..	506c 578c 613c
Acrostic, Gilbert and Sullivan Double (<i>Hugh Tierney, C.A.</i>) ..	405l 437c 480c
Actuaries' Investment Index ..	690 704
Additional Assessments, 'Discovery' and Notification of ..	88 293
Adopted Children: Tax Relief ..	130w
Advance of Payment, Receipts in ..	727c
Advances (Bank) Continue to Fall ..	140c
African Reader's Need ..	22c
Agencies, International: Tax-free Salaries ..	312w
Agreement for Sale of Property ..	80c
Agricultural Marketing: Consumers' Committee ..	26p
Agriculture, Deficiency Payments for ..	728c
" University of Cambridge School of: Report on Farming, 1952 ..	731
Ainsworth, Mr John, M.B.E., F.S.A.A., F.I.M.T.A., honoured by Liverpool University ..	335w
Airlines versus Shipping Lines ..	216a
Alternative to Winding-up: Section 210 of the Companies Act (<i>Spencer G. Maurice</i>) ..	74w
Amalgamated Anthracite Collieries Ltd ..	605w
American Institute of Accountants: Annual Meeting ..	710a
" New President ..	574f
Andrews, T. "Coleman," C.P.A.: Name installed in Accounting Hall of Fame ..	398
Annotated Tax Cases ..	524w
Annual Meetings: Companies ..	59
Appeals Pressure, Tax ..	116 293 488 516 591
Appointed Day for Steel ..	513p
Appointment of Auditors ..	340c
Appropriation Accounts, Revenue Departments' ..	15w
Approved Auditors: Friendly Societies ..	579c 633c
Army Officer's Expenses ..	678a
Articled Clerk on Training for the Profession, Opinions of an (<i>J. H. Pascoe</i>) ..	619
Articles in Industry (<i>Michael G. Frampton</i>) ..	106w
Clerks in Industry ..	188a
Articles as seen by a Principal, Period of (<i>T. A. Hamilton Baynes, M.A., F.C.A.</i>) ..	364
Aspro Ltd ..	364
Assessments, Additional: Schedule A (<i>Peter Whitworth</i>) ..	364
Notification of Additional ..	292
Assistant Official Receivers Appointed ..	292
Association of British Chambers of Commerce: Pre-Budget representation to the Chancellor ..	292
Association of Certified and Corporate Accountants ..	292
Annual Conference ..	292
" Dinner and Dance ..	292
Edinburgh and East of Scotland Branch: Annual Dinner ..	292
Examination Results, June 1953 ..	282
Luncheon to Lord Mayor of Birmingham ..	282
Memorandum to the Board of Inland Revenue on Estate Duty Anomalies ..	282
Presentation to Mr J. C. Latham ..	282
University Scholarship Scheme ..	282
Association of Chartered Accountants in Egypt ..	282
" Incorporated Statisticians Ltd: Lecture Programme ..	282
" Superannuation and Pension Funds: Annual Meeting ..	282
Assurance, Industrial ..	282
Atkins Brothers (Hosiery) Ltd ..	282
Attitude Surveys in Industry ..	282
Audit, Framework of a Company (<i>Howard Goodwin, A.C.A.</i>) ..	282
Auditing Tests (<i>K. W. Walker, B.A., A.C.A.</i>) ..	282
Auditor, Change of ..	282
Auditors, Appointment of ..	282
Auditor's Certificate of Value Disputed: Compulsory Sale of Shares ..	282
Australasian Commentary (<i>S. R. Brown, LL.B., F.C.A. (Aust.)</i>) ..	282
Australian Accountant's Appointment ..	282
" Budget ..	282
" National Income, Higher ..	282
Autumnal Meetings ..	282
Award, The Accountant Annual ..	282

	PAGE		
Gold Reserves, Slight Rise in	311 <i>wn</i>	Industry, Chartered Accountant in (<i>J. Clayton, A.C.A.</i>)	
Goods in Transit, Accounting for	418c 530c	" Six Months in: Valuable Training for an	
Goodwill in Consolidated or Group Accounts (<i>F. G. Beard, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S.</i>)	157a	Articled Clerk (<i>Michael G. Frampton</i>)	
Jeweller's Business	177c	Inflation, Accounting for	20c 49c 79c 139c 234c 266c
Goodwin, Howard, A.C.A. - Framework of a Company Audit	65a	Inhuman Efficiency	30a
Greece: Double Taxation Convention	143	Initial and Annual Allowances: Electric Motors	
Greyhound Racing Association Trust Ltd	260f	Inside Information	
		Inspector of Foreign Dividends: Change of Address	
H		" Taxes Interrogates: Chance Acquaintance who bought a small Business (<i>Wilfred Tullett, F.S.A.A.</i>)	
Hall and its History, A	625a	" " " The Blacksmith at Sleepy Hollow (<i>Wilfred Tullett, F.S.A.A.</i>)	
Harbens Ltd	434f	Institute and Publicity, The	546 <i>wn</i>
Hepworth, J. & Son Ltd	694f	" of Actuaries: Examination Results	
Hill-cattle Subsidy	43 <i>wn</i>	" " Ordinary Meeting	
Hiring out Caravans: Taxation	482c	" of Chartered Accountants in Australia: Twenty-fifth Anniversary	
Historic Costs Defended: Accounting Principles	20c 79c		
Home Consumption, Higher	256 <i>wn</i>	I	
Hope, Henry & Sons Ltd	45f	Institute of Chartered Accountants in England and Wales -	
Hornsey, Geoffrey, LL.M., Lecturer in Law, University of Leeds - Remuneration of Trustee Directors	519a	Appeal Committee	
Hospital Costing Working Party Appointed	525 <i>wn</i>	Associates elected to Fellowship and Applicants admitted to Membership	115 236 348 486
Hospitals, In-patient Costing in (<i>J. C. Denyer, A.C.I.S., A.H.A.</i>)	274a	Autumn Meeting, Twenty-first	412 <i>wn</i> 425a 4
Housing Repair Problem	544a	"	439 469a 471f 564 492f
" Repairs and Rents Bill	566a	Coronation Reception	26
Howards & Sons Ltd	45f	Council: New members elected	43 <i>wn</i> 74 <i>wn</i> 19f
Howitt, Sir Harold, G.B.E., D.S.O., M.C., D.L., F.C.A., Honorary Degree conferred at Oxford	113	Disciplinary Committee	476 <i>wn</i> 63f
Hulett, Sir J. L. & Sons Ltd	414f	Examination Results, May 1953	210 321 458
Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants: Annual Golf Competition	28	History of the Hall of the Institute (<i>Stern</i>)	115 135 <i>wn</i>
Human Relations in Industry	312 <i>wn</i>	List of Members	
Hunter, F. T., A.C.A., A.C.W.A. - Smaller Undertakings: Services which Accountants can Render	685f	Meetings of the Council, July 8th, 1953	
		" " August 5th, 1953	
		" " September and, 1953	
		" " October 6th, 1953	
		" " November 4th, 1953	
		" " December and, 1953	668
		Memorandum to Board of Inland Revenue: Estate Duty Anomalies	593a 614
		" " Select Committee on Nationalized Industries	
		Notes on the Relation of the Internal Audit to the Statutory Audit	181a
		Notes on the treatment of profits tax in accounts	541a
		Ownership of Records: Revised statement	
		Publicity and the Institute	546 <i>wn</i>
		Reception at Royal Festival Hall	26
		Recommendation XVI: Accountants' Reports for Prospectuses	565a 5
		Summer Course, Seventh	43 <i>wn</i> 61a 163f 18
		Taxation and Research Committee	222f 251f 277f 30
		Work of the Institute	236 397 524 <i>wn</i>
		Institute of Chartered Accountants in Ireland -	
		Examination Results, May 1953	
		Examinations, November 1953	
		Meetings of the Council	58 345
		Revision of Examination Syllabus	
		Institute of Chartered Accountants of Scotland -	
		Examination Results, May 1953	43 <i>wn</i>
		London Local Committee: Annual Dinner	48
		Memorandum to the Board of Inland Revenue on Estate Duty Anomalies	64a
		Special General Meeting	36
		Summer School, First	145 <i>wn</i>
		Institute of Cost and Works Accountants -	
		Examination Results, June 1953	229 <i>wn</i> 239
		Intermediate Examination and Grading Promotion	21
		List of Members	
		Manchester and District Branch Dinner	53
		Midland Regional Conference	59
		North Regional Conference	46
		Report on Transport Costing	525 <i>wn</i>
		Residential Course	362 <i>wn</i> 37
		Summer School	

	PAGE		PAGE
De Institute of Internal Auditors: London Chapter		London and District Society of Chartered Accountants - <i>contd.</i>	
Dis Lecture Programme	375	Lecture Meetings	488 563 601f 626l 648 651l
Dip Meetings for Assistance	515	Luncheon Meetings	513 601f
Din One-day Conference	648	London County Freehold and Leasehold Properties Ltd	108f
Institute of Municipal Treasurers and Accountants -		Stadiums Ltd	173f
Dir Examination Results, May 1953	106wn 120	Transport Inquiry	74wn
Dis President's Visit to Canada	335wn	Long Service Awards	398
Dis Report on Transport Costing	525wn	Lord Latham, Minister's Tribute to	171wn
Dis Return of Rates, 1953-54	60	Losing a Client	461a 548c 573wn 613c 665c
Dis Institute of Taxation -		Lower Bank Rate	353a
Dis Memorandum to the Board of Inland Revenue on		Lyttelton, Oliver, D.S.O., M.C., M.P. - Accountancy	
Di Estate Duty Anomalies	692wn	and Company Finance	601f
Dis Institute's Autumnal Meeting: Wife's Eye View (<i>Charlotte Clarke</i>)	469a		
Dis Insurance Scheme for Accountants	618	M	
Dis Statistics	180 323	Macdonald, E. N., D.F.C., F.C.A. - The Excess Profits	
Dis Inter-American Accounting Conference, Third, 1954	398	Levy	492l 520l
Dis Interest Certificates, Bank	664c	McLachlan, G., B.Com., A.S.A.A. - Scope of the Pro-	
Dis Internal Audit	181a 208	fession	303a
Dis International Agencies: Tax-free Salaries	26b	Maintenance Orders, Tax-free (<i>T. J. Sophian</i>)	124a
Dis Bitumen Emulsions Ltd	231f	Malayan Breweries Ltd	549c
Dis Management Congress, Tenth	28 399	Management Accountancy (<i>Harry Dugdale, A.A.C.C.A.</i>	
Dis Intestate Succession Tables	59	<i>A.C.W.A., A.M.I.I.A.</i>)	356a
Dis Investigation of Ownership of Shares: Savoy Hotel		Value of	399
Ltd	573wn 604wn 648	Accounting for Public Administration	
Dis Divestment Trusts, Capital for	153a	(<i>Lawrence W. Robson,</i>	
Dis Doron and Steel Corporation: Appointed Vesting Day	15wn	<i>F.C.A., F.C.W.A.</i>)	714l
Dis Holding and Realization Agency	172wn	The Capital and Cash Fore-	
Dis Dotalian Steel Tariffs	229wn	cast (<i>Ian Liddington, M.C.,</i>	
		<i>A.C.A.</i>)	329a 396c 418c 506c
		Congress, Tenth International	28 399
J		Manchester and Liverpool Students' Residential Courses	346
Dis J		Manchester Chartered Accountants' Students' Society -	
Dis J		Annual Meeting	376 563
Dis J		Joint Residential Course	376
Dis J		Lecture Meetings, 1953-54	376
Dis J		Manchester Society of Chartered Accountants -	
Dis J		Lecture Meeting	539 648
Dis J		Manchester Law Club: Lecture Programme	732
Dis J		Marketing the Steel Companies	172wn
Dis J		Martyred Accountant - Days from my Diary	250a 361a 491a
Dis J		Materials Prices Fall Further	336wn
Dis J		Mathematical Crossword (<i>Gordon S. Moorhouse</i>)	701 732
Dis J		Maurice, Spencer G. -	
Dis J		Alternative to Winding-up: Section 210 of the Com-	
Dis J		panies Act	710a
Dis J		Costs and Remuneration of Trustees	463a 704
Dis J		Meat Conferences, Coming	719wn
Dis J		Mechanization: Brewery Company's Accounting System	
Dis J		(<i>A. G. Thomson</i>)	92a
Dis J		Mechanized Bank Pass-books	418c
Dis J		Medium Practices: Fees	141c
Dis J		Merchandise Marks Bill	15wn
Dis J		Michaelmas Sittings, 1953: Revenue Paper	422 591
Dis J		Middleton, Mr Arthur E., J.P., F.S.A.A., Knighted	43wn
Dis J		Milk Utilization, Productivity Team Report	136wn
Dis J		Minister's Tribute to Lord Latham	171wn
Dis J		Minor's Income and Child Allowance	481c
Dis J		Misleading Trade Descriptions	15wn
Dis J		Mistake in Contracts	50c
Dis J		Monopolies and Restrictive Practices Commission -	
Dis J		Bill	592
Dis J		Report on Imported Timber	43wn
Dis J		Monsanto Chemicals Ltd	515
Dis J		Montague Burton Ltd	478f
Dis J		Moore, K. A. E., F.C.A. - The Accountant as Financial	
Dis J		Adviser	502f
Dis J		Moorhouse, Gordon S. - Mathematical Crossword	430l 471l
Dis J		More or Less Correct	701 732
Dis J		Morgan Crucible Co Ltd	79c
Dis J		Motor Body Companies, Acquiring	391f
Dis J		Show, 1953	172wn
Dis J		Murex Ltd	477wn
Dis J			364f
		N	
		Nathan Committee Report: Charitable Trust Accounts	121a
		National Association of Practising Accountants, Pro-	
		posed	183a 204c 318c 611c
		Coal Board Staff Superannuation Scheme	
		Report	500wn
		Surplus, Higher	389wn

	PAGE		PAGE
National Income and Expenditure, 1946-1952 ..	282w	Obituary - contd. -	
" Insurance Benefits: Occupational Disease ..	58	Slater, G. R., F.C.A. (Bournemouth) ..	668
" " (Industrial Injuries) Act ..	198w	Stevenson, H. B., F.C.A. (Brixham) ..	553
" " Ministry of: Fourth Report ..	114 246a	Sudworth, E., F.C.A. (Huddersfield) ..	513 553
" " Short Periods of Unemployment ..	27	Thorne, E. G., F.C.A. (Hereford) ..	457
" " and Sickness ..	630w	Walton, T., F.C.A. (Manchester) ..	57 85
" Union of Manufacturers and Estate Duty ..	335w	Ward, D. J., M.C., A.C.A. (Aberdovey) ..	457
Nationalization, Road Haulage ..	213a	Welchman, A. R., F.C.A. (London) ..	457
Nationalized Industries, Report from the Select Committee on ..	483	Wheeler, F. J., F.C.A. (London) ..	457
" " Select Committee on: The Institute's Memorandum ..	476w	Wheelock, P., A.C.A. (Birmingham) ..	457
" " Lorries, Balancing Charges on ..	384l	Wilkinson, J. W. O., F.C.A. (London) ..	86
Nature and Purpose of Direct Taxation (<i>F. Sewell Bray, F.C.A., F.S.A.A.</i>) ..	502f	Williams, G. H., F.C.A. (Plymouth) ..	668
Neepsend Steel and Tool Corporation Ltd ..	533	Wynn, A. H., A.C.A. (London) ..	457
Netherlands Institute of Accountants: Yearday Conference in Amsterdam ..	173f	Yorke, R., A.C.A. (Tipton) ..	86
New Capital Issue: Letters of Rights ..	213a	Occupational Disease: National Insurance Benefits ..	58
" Responsibility: Report from the Select Committee on Nationalized Industries ..	243a	Ocean Coal & Wilsons Ltd ..	109f
" Zealand Companies Bill ..	388w	Odds, Ordered ..	217a 320c
" Society of Accountants: New Secretary appointed ..	38l	Office Management Association ..	400
Norcross, H. H., F.C.W.A. - Works Planning and Cost Control in the Car and Sheet Metal Industries ..	68a 159a 330a 599a 712a	" " " Conference of Glasgow and West of Scotland Branch ..	212
North American Commentary (<i>Kenneth P. Byrd, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)</i>) ..	676	Oil Output, Record World ..	255w
North London Discussion Group of Chartered Accountants ..	644	Old Age, Committee on the Economic and Financial Problems of the Provision for ..	136w 563
North Yorkshire and South Durham Branch, Leeds, Bradford and District Society of Chartered Accountants: Dinner in Darlington ..	588	Older Men and Women, Report of National Advisory Committee on the Employment of ..	490a
Northern Society of Chartered Accountants: Annual Dinner ..	597a	Ordered Odds ..	217a 320c
Notice to Employees (<i>Barrister-at-Law</i>) ..	727c	Organization and Activities of the Accounting Profession in the United States (<i>John L. Carey</i>) ..	251l
Notification of Additional Assessments ..	670	" " Fees in Medium Practices (<i>R. Sproull, C.A., F.C.W.A.</i>) ..	277l 305l
Nottingham Chartered Accountant Students' Society - Annual Dinner ..	211	Our Contemporaries ..	60 88 212 268 294 324 400 424
" Meeting ..	699	Output during the Holidays ..	515 620 648 676 704 732
Nottingham Society of Chartered Accountants - Dinner at the University ..	490a	Over-deduction of Tax from Ordinary Dividend ..	389w
Not Too Old at Forty ..		Overseas Economic Survey ..	294 324 400 514

O

Obituary -

Armistead, H., F.C.A. (Leeds) ..	668
Baddeley, L. A., M.C., F.C.A. (Lingfield) ..	457
Bates, C., F.C.A. (Cardiff) ..	115 208
Beecroft, L. C., F.C.A. (London) ..	647 668
Cable, R. V., A.C.A. (Willenhall) ..	86
Campbell, A. A., C.A. (Carlisle) ..	345
Charles, M., A.C.A. (London) ..	457
Chater, M., F.C.A. (Hove) ..	668
Coates, F. P., F.C.A. (Rotherham) ..	457
Corley, M. A., A.C.A. (Hull) ..	87 208
Cotterill, A. J., A.C.A. (Nottingham) ..	513 553
Cuff, G. F., A.C.A. (New York) ..	668
Darker, D. E., F.C.A. (London) ..	208
Deane, G. K., A.C.A. (Dublin) ..	208
Dryden, R., F.C.A. (Manchester) ..	86
Ellison, J., F.C.A. (Birmingham) ..	86
Evans, T. D., B.A., A.C.A. (Bargoed) ..	553
Glaister, E. W., F.C.A. (Carlisle) ..	457
Guiler, W. C., A.C.A. (Drogheda) ..	87
Hale, J. A. D., F.C.A. (London) ..	457
Hale, W. P., B.COM., F.C.A., F.S.A.A. (Coventry) ..	398
Howard, H. C., F.C.A. (London) ..	178 237 345
Keens, Sir Thomas, D.L., F.S.A.A. (Luton) ..	647
Khandelwal, H. P., B.COM., A.C.A. (Calcutta) ..	457
Latham, W., F.C.A. (Lytham St Annes) ..	553
Louch, H. T., F.C.A. (London) ..	668
March, C. J., F.C.A. (London) ..	142
Middleton, Sir Arthur, J.P., F.S.A.A. (London) ..	487 513
Morgan-Jones, P., F.C.A. (Eastbourne) ..	115
Mounsey, W. E., J.P., F.C.A. (Liverpool) ..	487 553
Myrtle, T. C., A.C.A. (Harrrogate) ..	668
Nicholson, E. T., F.C.A. (Hoylake) ..	668 730
Perkins, A. E., F.C.A. (Bristol) ..	374 457
Phillips, W. J., O.B.E., A.S.A.A. (London) ..	374
Sails, Y., A.C.A. (Southampton) ..	457
Sargant, P. P., F.C.A. (London) ..	208
Seed, T., F.C.A. (Manchester) ..	86
Selmon, H. R., A.C.A. (Cardiff) ..	513 553

P

Paper Currency, Britain's (<i>R. Robert, A.C.I.S.</i>) ..	681a
Partnership Changes and Income Tax ..	288c
Partnerships, Taxation of: Changes under the Finance Act, 1953 (<i>T. J. Sophian</i>) ..	707a
Pascoe, J. H. - A Labour of Five Years: Opinions of an Articled Clerk on Training for the Profession ..	358a
Patons & Baldwins Ltd ..	231f
Peerless & Ericsson Ltd ..	414f
Peirson, J. C., F.C.A. - The Lawyers' Return: Section 22, Income Tax Act, 1952, and Form No. 8-2 ..	64a
Pensions and Allowances ..	246a
Period of Articles as seen by a Principal (<i>T. A. Hamilton Baynes, M.A., F.C.A.</i>) ..	359a
Personal ..	26 57 86 115 142 178 211 237 267 292 322 345
Philip, I. G. - Early Accounts of the University of Oxford ..	374 397 422 459 487 512 539 562 590 618 647 674 703 730
Philippine Institute of Accountants ..	540
Plant, Civil Engineering ..	395c 482c
Poor Show ..	546w
'Portland Bill': Blue Circle Cement ..	110f
Post Office Savings Bank Books: Tax Notices ..	211p
" " " Disclosure of Bank Interest ..	339c
" " " -war Credits ..	26p 702p 703p
" " " War Gratuities and ..	143p
Practising Accountants, National Association of ..	183a
Pre-Budget Representations of the Association of British Chambers of Commerce ..	204c 318c 611c
Preferential Creditors ..	691w
Preston and District Chartered Accountant Students' Society: Officers for 1953-54 ..	728c
Prevention of Fraud (Investments) Act, 1939 ..	87
Prices Fall Further, Materials ..	144
" " Pause in ..	336w
" " Trust Co Ltd ..	502w
Private Companies, Estate Duty and: Recommended Changes ..	722f
Enterprises Investment Co Ltd ..	518a 573w 593a 614 630w 639 649a 692w 415f

	PAGE		PAGE
Private Trading in Copper	198 ^{ton}	Registrar of Friendly Societies, Report of	273a
Production and Export	631 ^{ton}	Registration of Accountants (<i>see also</i> 'Co-ordination of the Profession')	319c
" Control Report	412 ^{ton}	Remuneration of Financial Advisers	318c
" Index of Industrial	283 ^{ton}	" Trustee Directors (<i>Geoffrey Hornsey, LL.M., Lecturer in Law, University of Leeds</i>)	519a
" Planning and Control: Productivity Team Report	412 ^{ton}	" Trustees, Costs and (<i>Spencer G. Maurice</i>)	463a 704
" Resilient	44 ^{ton}	Renold and Coventry Chain Co Ltd	201f
Productivity Team Report: Design for Production	433 ^{ton}	Rent Restriction in Europe	336 ^{ton}
" Fuel Conservation	311 ^{ton}	Repayment Claims: Income Tax	26p
" Milk Utilization	136 ^{ton}	Replacement Cost: A Student's Views	695c
" Production Planning and Control	412 ^{ton}	" Costs, Economists and Profit is False	112c
Profession, Co-ordination of the	21c 50c 81c 112c 176c	Reports for Prospectuses	565a 581
" in 1953, The	705a	" of Public Companies: <i>The Accountant Annual Award</i>	489a 512 674 700 730
" Scope of the (<i>G. McLachlan, B.Com., A.S.A.A.</i>)	393a	Resilient Production	44 ^{ton}
Professional Accountants in the Civil Service	395c	Retail Trade, Accounting Research into	506c 578c 613c
" Classes Aid Council	179	Revenue Departments' Appropriation Accounts	678a
" Discipline	288c	" Paper: Michaelmas Sittings, 1953	422 591
" Fees	1a 8l	Reversing the Balance Sheet	287c
" Notes	26 57 86 122 178 211 267 322 345 374		
" 398 422 459 487 512 539 563 590 618 647 674 793			
Profits Tax	524 ^{ton}		
" Director-controlled Companies: Repaid Loans	633c		
" Important Statement concerning Balance Sheets	234c		
" Non-distribution Relief	541a 554		
" Peculiarity	529c		
" Shares redeemed at a Premium	367c		
Property, Agreement for Sale of	630 ^{ton}		
Prospectuses, Reports for	728c		
Provincial Accountant as Book-keeper (<i>John Unett, A.C.A.</i>)	565a 581		
" Financial Adviser (<i>John Unett, A.C.A.</i>)	276a		
Provision for Old Age: A New Committee	247a		
Public Accountants' and Auditors' Act (S. Africa)	136 ^{ton} 563		
" Administration, Management Accounting for (<i>Lawrence W. Robson, F.C.A., F.C.W.A.</i>)	14 ^{ton}		
" Companies, Reports of: <i>The Accountant Annual Award</i>	714f		
" Corporation for the B.I.F.	489a 512 674 700 730		
" Examination of Directors in Winding-up (<i>W. H. D. Winder, M.A., LL.M.</i>)	631 ^{ton}		
" Expenditure	127a		
" Issues: Preliminary Considerations for Private Companies (<i>C. H. Scott</i>)	2a		
Publications of the Institute, Technical	651l		
Publicity, The Institute and	524 ^{ton}		
Purchase Tax, Pressure on	546 ^{ton} 561		
" Reduction, Timing	501 ^{ton} 531c		
Pye Ltd	413 ^{ton}		
	314f		
Q			
Qualifications, Accountancy	50c 79c		
Qualified, Thoughts on Becoming (<i>J. S. Ross</i>)	161a		
Queen's Speech, The	517a		
Questions for Christmas	688 696		
R			
Racing Pools: Audit	728c		
Ragusa Asphaltic Paving Co Ltd	17f		
Rateable Value Analysis	619		
Rates, Return of, 1953-54	60		
Rayon Output Recovers	526 ^{ton}		
" Production, Sharp Fall in	389 ^{ton}		
Receipts and Audit: Gardening Profits	396c		
" in advance of Payment	22c		
" Stamped	287c		
" Stamps on	207a 418c 506c		
Recent Publications	78 177 230 259 343 390 580 609 639		
Recommendations on Accounting Theory (<i>W. T. Baxter, Professor of Accounting, University of London</i>)	495l		
	437c 480c		
Registrar of Friendly Societies, Report of	273a		
Registration of Accountants (<i>see also</i> 'Co-ordination of the Profession')	319c		
Remuneration of Financial Advisers	318c		
" Trustee Directors (<i>Geoffrey Hornsey, LL.M., Lecturer in Law, University of Leeds</i>)	519a		
" Trustees, Costs and (<i>Spencer G. Maurice</i>)	463a 704		
Renold and Coventry Chain Co Ltd	201f		
Rent Restriction in Europe	336 ^{ton}		
Repayment Claims: Income Tax	26p		
Replacement Cost: A Student's Views	695c		
" Costs, Economists and Profit is False	112c		
Reports for Prospectuses	565a 581		
" of Public Companies: <i>The Accountant Annual Award</i>	489a 512 674 700 730		
Resilient Production	44 ^{ton}		
Retail Trade, Accounting Research into	506c 578c 613c		
Revenue Departments' Appropriation Accounts	678a		
" Paper: Michaelmas Sittings, 1953	422 591		
Reversing the Balance Sheet	287c		
Reviews -			
A Hundred Years of the Halifax (<i>Hobson</i>)	48		
Banking (<i>Parker</i>)	48		
Basic Rates of Capital Allowances (<i>Engineering Industries Association</i>)	259		
Bold Adventure (<i>Ellis</i>)	343		
British War Production (<i>Postan</i>)	343		
Business Doctor, The (<i>Finner</i>)	48		
Census of Distribution and Other Services, 1950, Vol. 1. Retail and Service Trades - Area Tables (<i>H.M.S.O.</i>)	267		
Changing Law, The (<i>Denning</i>)	177		
Commerce and the Commercial Office (<i>Campbell</i>); and edition (<i>Beechono</i>)	259		
Company Director, The (<i>Read</i>)	47		
Control of Raw Materials (<i>Hurstfield</i>)	343		
Cost Accounting in Industrial Management (<i>Fisher and Thompson</i>)	259		
Cost of Industrial Movement (<i>Luttrell</i>)	720		
C.P.A. Handbook (Ed. <i>Kane</i>)	241a 298a		
C.P.A. Problems and Questions in Theory and Auditing, 4th edition (<i>Taylor and Miller</i>)	638		
Current Accounting Trends (<i>Fitzgerald</i>)	638		
Delegation of Services within Counties (<i>Sampson</i>)	78		
Duties of Junior and Senior Accountants (<i>American Institute of Accountants</i>)	298a		
Exchange and Trade Control in Theory and Practice (<i>Evitt</i>)	390		
Factory Organization and Management, 3rd edition (<i>Saunders</i>)	257		
Faster than Thought (<i>Bowden</i>)	720		
Flexible Budgetary Control and Standard Costs (<i>Evans-Hemming</i>)	258		
Four Essays in Accounting Theory (<i>Stowell Bray</i>)	580		
General Commercial and Financial Knowledge for Examinees (<i>Taylor</i>)	721		
Green's Death Duties, and Cumulative Supplement to 3rd edition (<i>Hewitt</i>)	721		
Guide to Government Orders, 1952 (<i>H.M.S.O.</i>)	259		
Hanson's Death Duties, 9th edition, 5th Cumulative Supplement (<i>Wolfe</i>)	48		
History of the Hall of the Institute of Chartered Accountants in England and Wales (<i>Stern</i>)	625		
Home and Foreign Investment (<i>Cairncross</i>)	390		
Honour's Principles and Practice of Profits Insurance, 2nd edition (<i>Honour and Davison</i>)	257		
Illustrations to Income Tax, 5th edition (<i>Silke</i>)	390		
Income Taxes in the Commonwealth, Vol. II (<i>H.M.S.O.</i>)	342		
Inflation - Its Treatment in Accounts (<i>Davis</i>)	608		
Internal Auditing (<i>Smith</i>)	639		
Introduction to Income Tax, 10th edition (<i>Fryer</i>)	342		
Introduction to Statistical Calculations (<i>Mounsey</i>)	259		
Key to Profits Tax, 3rd Edition (<i>Staples</i>)	720		
Law of Wills: including Intestacy and Administration of Assets, 4th edition (<i>Bailey</i>)	638		
Legal Aspects of Business, 3rd edition (<i>Light</i>)	721		
Letters from a Bank Parlour (<i>Hill-Reid</i>)	48		
Management: its Nature and Significance, 3rd edition (<i>Brach</i>)	580		
Mathematics of Investment (<i>Hart</i>)	390		

Reviews - contd. -

Men of Mathematics (Bell)	720
Note on Consolidation, A (<i>Incorporated Accountants' Research Committee</i>)	377
Other People's Money (<i>Cressey</i>)	609
Outline of Statistics, 4th edition (<i>Hays</i>)	720
Palmer's Company Precedents, Part III: Debentures, 16th edition (<i>Topham and Buchanan-Dunlop</i>)	47
Principles of British Insurance (<i>Raynes</i>)	638
Profits Tax, 2nd edition (<i>Borneman and Hughes</i>)	342
Puffs, Balloons and Smokeballs (<i>Polak</i>)	343
Purpose and Practice of Motion-Study (<i>Shaw</i>)	258
Pymont's Company Law of South Africa, 6th edition (<i>Diamond and Boehmke</i>)	257
Ranking, Spicer and Pegler's Executorship Law and Accounts: Supplement to 18th edition	259
Ranking, Spicer and Pegler's Mercantile Law, 9th edition (<i>Bigg and Beattie</i>)	721
Register of Defunct and Other Companies (<i>Skinner</i>)	609
Secretarial Practice of Local Authorities (<i>Jackson</i>)	48
South African Companies Acts (<i>Susman</i>)	257
Spicer and Pegler's Income Tax and Profits Tax, 20th edition (<i>Wilson</i>)	342
Supplement to 20th edition	259
Statistics as Applied to Accounting Data (<i>Curtis</i>)	47
Stock Exchange Official Year Book, 1953 - Vol. II (<i>Skinner</i>)	609
Structure and Capacity of Australian Manufacturing Industries (<i>Department of National Development, Australia</i>)	258
Studies in Costing (<i>Solomons</i>)	47
Studies in Management Techniques (<i>Briggs</i>)	608
Survey of Unit Costing in Local Government (<i>Yates and Herbert</i>)	78
Taxation Key to Income Tax and Sur-tax, Finance Act edition, 1953 (<i>Staples</i>)	342
Taxation Manual, 7th edition (<i>Staples</i>)	342
Transport Costing (<i>Joint Committee of I.M.T.A. and I.C.W.A.</i>)	525wn
Trusts and Foundations (<i>Keeling and Landau</i>)	343
Underhill's Law Relating to Trusts and Trustees, 10th edition:	
and Cumulative Supplement (<i>Wells</i>)	48
3rd Cumulative Supplement (<i>Wells</i>)	721
We Too Can Prosper (<i>Hutton</i>)	230
Rise in Gold Reserves, Slight	311wn
Rivers Act: Trade Expenditure	178p
Road Haulage Costing Report	525wn
" Disposals	433wn
" Nationalization	335wn
Roads - A Beginning	719wn
Robert, R., A.C.I.S. -	
Britain's Paper Currency	681a
Slide-rules for Accountants	383a
Robson, Lawrence W., F.C.A., F.C.W.A. - Management Accounting for Public Administration	714l
Ross, J. S. - Thoughts on Becoming Qualified	161a
Royal Commission on Taxation: Report	513p
Sovereign Pencil Co Ltd	337f
Rule of the Road	23c

S

Sacred Cows of Taxation (<i>Alun Grier Davies</i>)	567a 610c 632c
Safeguard Industrial Investments Ltd	414f
Sale of Shares, Compulsory: Auditor's Certificate of Value Disputed	3a
Salesmanship, Cost of	363wn
Savings in 1952, Personal	283wn
Savoy Hotel Ltd: Investigation of Ownership of Shares	573wn
Schedule A: Additional Assessments (<i>Peter Whitworth</i>)	604wn 648
E: Expenses	428a
Schneiders, S., & Son Ltd	205c 235c 318c 339c
School Fees: Tax Allowance	502f
Tax Instruction in	701p
Scope of the Profession (<i>G. McLachlan, B.Com., A.S.A.A.</i>)	514
Scott, C. H. - Public Issues: Preliminary Considerations for Private Companies	303a
Scottish Council (Development and Industry)	651l
Representations: Football Tax	143
Secretaries: Co-ordination of the Profession	513p
Seed Warehouse, Stock Control System for	22c 81c 112c 176c
	438c 633c

Services for Export	692wn
" which Accountants can render Smaller Undertakings (<i>F. T. Hunter, A.C.A., A.C.W.A.</i>)	685l
Setting up an Organization in Brazil	564
Settlements and Tax: New Practical Points (<i>T. J. Sophian</i>)	248a 292
Seventy-five Years Ago	28 60 88 116 144 180 212 238 268
	294 324 347 376 400 424 460 488 516 540 564 592
	620 648 676 704 732
S.G.B. (Dudley) Ltd	527f
Sharpe, Compulsory Sale of: Auditor's Certificate of Value Disputed	3a
" for Estate Duty, Valuation of	525wn 547wn
	592wn 621a 718wn
" redeemed at a Premium: Profits Tax	630wn
Sheffield and District Chartered Accountants' Society: Annual Meeting, Sixty-second	423
Shipbuilding Costs Again	440wn
Shipping, Depreciation of	255wn
" Freight Index, New	230wn
" Lines versus Airlines	605wn
Simon, Sidney I. - Equity and the Income Tax Acts	185a
Six Months in Industry: Valuable Training for an Articled Clerk (<i>Michael G. Frampton</i>)	67a
Slide-rules for Accountants (<i>R. Robert, A.C.I.S.</i>)	383a
Smaller Undertakings: Services which Accountants can render (<i>F. T. Hunter, A.C.A., A.C.W.A.</i>)	685l
Smart, P. B., LL.B. - Taxed with Unkindness	334a
Smith, R. W., O.B.E., T.D., F.C.A. - The Accountant and the Farmer	4a 32a 70a 94a
Smith, Stephen & Co Ltd	527f
Smoking in Examination Rooms	266c 288c 320c 380a
Society of Incorporated Accountants and Auditors - (See also under 'Incorporated Accountants') -	
Dinner to Lord Mayor of London	116
Everest Expedition Leader at Luncheon Meeting	398
Examination Results, May 1953	106wn 117
Memorandum to the Board of Inland Revenue on Estate Duty Anomalies	649a
Residential Course	311wn 362wn 370
Soft Drinks Factory: Costing System	507c 664c
Solomons, David, B.Com., A.C.A., and W. T. Baxter, B.Com., C.A. - Stock Values	97l
Someone of Substance	728c
Some Problems of the Chartered Accountant in Practice (<i>W. L. Barrows, F.C.A.</i>)	163l
Sophian, T. J. -	
Balancing Charges: Madras Electricity Corporation Decision	381a
Settlement and Tax: New Practical Points	248a 292
Taxation of Partnerships: Changes under the Finance Act, 1953	707a
Tax-free Maintenance Orders	124a
Tax Saving Schemes: Acceleration of Reversionary Interest	595a
Winding-up and Disputed Debts	301a
South Africa, British Accountants in	14wn
" Goodwill in Consolidated or Group Accounts (<i>F. G. Beard, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S.</i>)	
South Eastern Society of Chartered Accountants -	
Annual Dinner	546wn 561
Students' Residential Course	323
South London Chartered Accountants' Discussion Group	346
South Wales and Monmouthshire Chartered Accountants' Golfing Society	423
Special Commissioners of Income Tax	143
Sproull, R., C.A., F.C.W.A. - Organization and Fees in Medium Practices	8l
Staff Selection (<i>H. F. Lock, B.Sc.</i>)	626l
Stamp Act: Twopence on the Cheque	156a
Stamped Receipts	287c
Stamps on Receipts	297a 418c 506c
Standard Costing in a South African Metal Window Factory (<i>P. G. Beard, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S.</i>)	569a
Steel, Appointed Day for	15wn
" Companies, Marketing the	172wn
" June Record for	75wn
" Pool and Export Cartel	604wn
" Production, Record	605wn
" Tariffs, Italian	229wn
Sterling Balances, Colonial	75wn

	PAGE		PAGE
Sterling Convertibility, United States and ..	255 <i>on</i>	Trade Gap Narrows ..	692 <i>on</i>
" Industries Ltd ..	575 <i>f</i>	" Unions, Report on ..	731
Stock Control System for Seed Warehouse ..	438 <i>c</i> 933 <i>c</i>	Training for the Profession, Opinions of an Articled Clerk on (<i>J. H. Pascoe</i>) ..	358 <i>a</i>
" " Installation of: Plumbers' Merchants ..	266 <i>c</i>	Transfer Grants: Tax ..	702 <i>p</i>
" Exchange Dramatic and Operatic Society ..	434 <i>f</i>	Trawlers Grimsby Ltd ..	606 <i>f</i>
" Members' Accounts ..	731	<i>Trickett, Kenneth, A.S.A.A.</i> -	
" -in-trade, Valuation of ..	437 <i>c</i>	Accountants' Crossword ..	144 180 729
" Investment Control (<i>R. J. Gibbens, F.C.W.A., A.M.I.I.A.</i>) ..	498 <i>l</i>	Trustee Directors, Remuneration of (<i>Geoffrey Hornsey, LL.M., Lecturer in Law, University of Leeds</i>) ..	519 <i>a</i>
" Values (<i>W. T. Baxter, B.Com., C.A. and David Solomons, B.Com., A.C.A.</i>) ..	97 <i>l</i> 140 <i>c</i>	Trustees, Costs and Remuneration of (<i>Spencer G. Maurice</i>) ..	463 <i>a</i> 704
Stone, J. F., Lighting and Radio Ltd ..	660 <i>f</i>	" Remuneration: Earned Income ..	106 <i>on</i>
Subsidy, Hill-cattle ..	437 <i>on</i>	Tube Investments Ltd ..	76 <i>f</i>
Subvention Payments: Finance Act, 1953, Section 20 ..	481 <i>c</i>	<i>Tullett, Wilfred, F.S.A.A.</i> -	
Succession Tables, Intestate ..	59	The Inspector of Taxes Interrogates: Chance Acquaintance who bought a Small Business The Blacksmith at Sleepy Hollow ..	680 <i>a</i> 411 <i>a</i>
Sugar, Agreement on ..	256 <i>on</i>	Turnover, Definition of ..	81 <i>c</i>
Supplement -		Twenty-five Years Ago ..	28 60 88 180 212 238 268 324 347 376 400 424 516 592 676
Photograph of Some Personalities at the 1953 Summer Course of the Institute ..	facing page 61	Twopence on the Cheque ..	156 <i>a</i>
Sur-tax Payers, For New ..	564	Tyre Retreading: Costing System ..	266 <i>c</i>
" Returns, Failure to make ..	526 <i>on</i>		
Syria. Review of Commercial Conditions in ..	516		

T

Take-over Bids	664c 728c 573wn 604wn 648
Tariffs, Italian Steel	229wn
Tax Allowance: School Fees	701p
" Appeals: Cost	703p
" " Pressure	340c
" Arrears: Distraint	178p
" Bank Deposits	702p
" Collection: Cost	674p
" Concession: Christmas Bonuses	730p
" Evasion Cases	701p
" -free Maintenance Orders (<i>T. J. Sophian</i>)	124a
" " Salaries: International Agencies	26p
" from Ordinary Dividend, Over-deduction of	578c 664c
" Instruction in School	514
" Receipts: Cinemas	27p
" Relief: Adopted Children	140c
" Saving Schemes: Acceleration of Reversionary Interest (<i>T. J. Sophian</i>)	595a
" Settlements and: New Practical Points (<i>T. J. Sophian</i>)	248a 292
" Transfer Grants	702p
Tax Case Reports	58
Taxation Conference	508
" in Accounts, Treatment of: <i>Hutton v. C.I.R.</i>	49c
" Lectures	238 293
" Nature and Purpose of Direct (<i>F. Sewell Bray, F.C.A., F.S.A.A.</i>)	384l
" of Doctors: Danckwerts Award	480c 507c
" of Partnerships: Changes under the Finance Act, 1953 (<i>T. J. Sophian</i>)	530c 548c 578c 610c 665c
" other than Taxation on Income (<i>P. F. Carpenter, F.C.A.</i>)	707a
" Royal Commission on: Report	222l
" Sacred Cows of (<i>Allen Grier Davies</i>)	513p
" Taxed with Unkindness (<i>P. E. Smart, LL.B.</i>)	567a 610c 632c
Taxes, Down With	334a
Taxpayer making a Profit out of Himself	691wn
Technicolour Bar	136wn
Territorial Officers: Income Tax	503f
Tests, Auditing (<i>K. W. Walker, B.A., A.C.A.</i>)	211p
Tetley, Joshua & Son Ltd	218a
Thames Grit and Aggregates Ltd	231f 660f
Thomson, A. G. - Mechanization: a Brewery Company's Accounting System	414f
Thornycroft, John I. & Co Ltd	92a
Thoughts on Becoming Qualified (<i>J. S. Ross</i>)	173f
Tierney, Hugh, C.A. - Gilbert and Sullivan Double Acrostic	161a
Tinplate Outlook, Better	690 704
Tootal Ltd	362wn
Trade Deficit in June, Higher	314f
" Descriptions, Misleading	75wn
" Expenditure: Rivers Act	15wn
" Gap in August, Lower	178p
	335wn

II

Unemployment at Mid-year	312 <i>wn</i>
<i>Unsett, John, A.C.A. -</i>	
The Provincial Accountant as Book-keeper	276 <i>a</i>
" " " as Financial Adviser	247 <i>a</i>
Union of Chartered Accountant Students' Societies	238 515 731
United States and Sterling Convertibility	255 <i>wn</i>
" " Organization and Activities of the	
Accounting Profession in the (<i>John L. Carey</i>)	251 <i>l</i> 277 <i>l</i> 305 <i>l</i>
University of Oxford, Early Accounts of the (<i>I. G. Philip</i>)	131 <i>a</i>
Unqualified Accountants	79 <i>c</i> 141 <i>c</i>

v

Valuation for Rating Bill	742W
“ of Shares for Estate Duty	525W 547W
“ of Stock-in-trade	592W 621A 718W
Value of Management Accountancy	437C
Vitamins Ltd	399
	76F

W

Walker, K. W., B.A., A.C.A. - Auditing Tests	218s
War Gratuities and Post-war Credits	143p
Wear and Tear Percentages: Machinery Allowances ..	1066p
Westminster Abbey Appeal	727p
Whitworth, Peter -	
Estates of Deceased Persons: Published Particulars	360s 48ac
Schedule A: Additional Assessments	428s
Wife's Earnings and Child Allowance	339p
" Eye View: The Institute's Autumnal Meeting	
(Charlotte Clarke)	469p
Williams and Williams Ltd	364s
Winder, W. H. D., M.A., LL.M. - Public Examination	
of Directors in Winding-up	127a
Winding-up, Alternative to: Section 210 of the Com-	
panies Act (Spencer G. Maurice)	710a
" and Disputed Debts (T. J. Sophian)	301a
" Public Examination of Directors in	
(W. H. D. Winder, M.A., LL.M.)	127a
Women Chartered Accountants' Dining Society: Dinner	
in London	645s
Works Planning and Cost Control in the Car and Sheet	
Metal Industries (H. H. Norcross, F.C.W.A.) ..	381a

y

Young Idea, The 298a

INDEX TO SUMMARIES OF TAX CASES

	PAGE		PAGE
ESTATE DUTY		PROFITS TAX	
C.I.R., C. R. Holt and Others v. .. (Ch.D.)	525wn	Stokes v. Bennett .. (Ch.D.)	23
Haldane's Trustees v. Lord Advocate .. (C.S.)	547wn 592wn 621a 718wn	Strick v. Longsdon .. (Ch.D.)	289
Holt and Others v. C.I.R. .. (Ch.D.)	525wn	Wernher, Sharkey v. .. (Ch.D.)	136wn 289
Lord Advocate, Haldane's Trustees v. .. (C.S.)	547wn 592wn 621a 718wn		
Lord Advocate, Walker's Trustees v. .. (C.S.)	666	INCOME TAX	
Walker's Trustees v. Lord Advocate .. (C.S.)	666	Bennett, Stokes v. .. (Ch.D.)	23
		Boarland v. Kramat Pulai Ltd .. (Ch.D.)	666
		Boarland v. Madras Electric Supply Corporation .. (Ch.D.)	292 381a
		Bramford's Road Transport Ltd v. Evans .. (Ch.D.)	667
		Broadstone Mills Ltd, Patrick v. .. (Ch.D.)	135wn 290
		British Legion, Peterhead Branch v. C.I.R. .. (C.S.)	291
		C.I.R., British Legion, Peterhead Branch v. .. (C.S.)	291
		C.I.R., Dale and Others v. .. (H.L.)	106wn
		C.I.R. v. Elcock .. (Q.B.D.)	526wn
		C.I.R., Glasgow Heritable Trust Ltd v. .. (C.S.)	291
		C.I.R., Linlithgow Town Council Entertainments Committee v. .. (C.S.)	291
		Dale and Others v. C.I.R. .. (H.L.)	106wn
		Delhi Electric Supply and Traction Co Ltd, <i>In re</i> .. (Ch.D.)	531
		Elcock, C.I.R. v. .. (Q.B.D.)	526wn
		Evans, Bramford's Road Transport Ltd v. .. (Ch.D.)	667
		Glasgow Heritable Trust Ltd v. C.I.R. .. (C.S.)	291
		Goff v. Osborne & Co (Sheffield) Ltd .. (Ch.D.)	199
		Griffiths v. Mockler .. (Ch.D.)	200
		Kramat Pulai Ltd, Boarland v. .. (Ch.D.)	666
		Linlithgow Town Council Entertainments Committee v. C.I.R. .. (C.S.)	291
		Lomax v. Newton .. (Ch.D.)	106wn 200
		Longsdon, Strick v. .. (Ch.D.)	289
		Madras Electric Supply Corporation, C.I.R. v. .. (Ch.D.)	292 381a
		Mockler, Griffiths v. .. (Ch.D.)	200
		Newton, Lomax v. .. (Ch.D.)	106wn 200
		Osborne & Co (Sheffield) Ltd, Goff v. .. (Ch.D.)	199
		Patrick v. Broadstone Mills Ltd .. (Ch.D.)	135wn 290
		Sharkey v. Wernher .. (Ch.D.)	136wn 289
		C.I.R. v. Universal Grinding Wheel Co Ltd .. (Ch.D.)	24
		Universal Grinding Wheel Co Ltd, C.I.R. v. .. (C.A.)	630wn
		Universal Grinding Wheel Co Ltd, C.I.R. v. .. (Ch.D.)	24
		Universal Grinding Wheel Co Ltd, C.I.R. v. .. (C.A.)	630wn
		SPECIAL CONTRIBUTION	
		C.I.R., Dale v. .. (H.L.)	199
		C.I.R., Fenwick v. .. (H.L.)	200
		Dale v. C.I.R. .. (H.L.)	199
		Fenwick v. C.I.R. .. (H.L.)	200
		STAMP DUTY	
		C.I.R., Platt's Trustees .. (Ch.D.)	290
		Cunliffe-Owen, <i>In re</i> .. (C.A.)	24
		Platt's Trustees v. C.I.R. .. (Ch.D.)	290
		SUR-TAX	
		Beatty, Earl v. C.I.R. .. (Ch.D.)	136wn 289
		Burlah Trust Ltd v. C.I.R. .. (Ch.D.)	23
		C.I.R., Burlah Trust Ltd .. (Ch.D.)	23
		C.I.R., Commercial Securities Ltd v. .. (Ch.D.)	667
		C.I.R., Earl Beatty v. .. (Ch.D.)	136wn 289
		C.I.R., Halbur Trust Ltd v. .. (Ch.D.)	23
		C.I.R., Haldin Philipps Ltd v. .. (Ch.D.)	200
		Commercial Securities Ltd v. C.I.R. .. (Ch.D.)	667
		Earl Beatty v. C.I.R. .. (Ch.D.)	289
		Halbur Trust Ltd v. C.I.R. .. (Ch.D.)	23
		Haldin Philipps Ltd v. C.I.R. .. (Ch.D.)	200

The Accountant

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VOL. CXXIX. NO. 4098



CONTENTS

Leading Articles	Page
For Services Rendered	1
Public Expenditure	2
Compulsory Sale of Shares	3
Special Article	
The Accountant and the Farmer - I by R. W. Smith, O.B.E., T.D., F.C.A.	4
Lecture	
Organization and Fees in Medium Practices by R. Sproull, C.A., F.C.W.A.	8
Weekly Notes	14
Current Law	15
Finance and Commerce	
Ragusa Asphalte Paving Co Ltd - Money Market	17
Correspondence	
Accounting Principles: Historic Costs Defended - Accounting for Inflation - Replacement Profit is False - Co-ordination of the Profession - Receipts in advance of Payments - Rule of the Road	20
Taxation Cases	23
The Association of Certified and Corporate Accountants	
Annual Conference at Folkestone	25
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Reception at the Royal Festival Hall - Personal - Professional Note - In Parliament - National Insurance - Chartered Institute of Secretaries - The Institute of Chartered Accountants in Ireland - International Management Congress - The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants - Commercial Conditions in Japan - Twenty-five Years Ago - Seventy-five Years Ago	26
Supplement	
General Index to Volume CXXVIII, January to June, 1953.	

FOR SERVICES RENDERED

THE lecture on organization and fees in medium-sized practices by MR ROBERT SPROULL, C.A., F.C.W.A., which we reproduce on another page of this issue, gives an interesting insight into a difficult and delicate subject. No scales of fees are laid down by the principal professional bodies although, since the war, certain recommendations that increases over the rates ruling in 1939 were justifiable have been made. There is, however, a scale of fees for accountants performing professional services for Government departments, fixed by the Treasury in 1947 and revised, after negotiations with representatives of the profession, last year. This directive follows the generally accepted principle in this country that the broad basis on which fees should be calculated is the time spent on the work.

There are, however, other relevant factors to be considered in special circumstances and in the recent *C.P.A. Handbook*,¹ issued by the American Institute of Accountants, a number of these in addition to the time element are discussed. It is interesting to note in passing, that in the United States 87 per cent of the firms and individuals in practice who completed a questionnaire on this subject thought that fees should be based primarily on the quality of the services rendered rather than on the time taken, and 62 per cent were of the opinion that fees calculated exclusively on a *per diem* basis stressed the wage-earner aspect and were not in accordance with the professional nature of accounting.

Among the special factors considered by the Americans are the technical importance of the work performed and the extent of the responsibility it entails. These, in turn, include such subsidiary matters as the grade of work (reporting for a prospectus, for example, being assumed to be more important than routine auditing); the adequacy of available records; the use the client intends to make of the accountant's report; the amounts involved; the effect of government restrictions and regulations; and the accountant's liability to third parties, all of which have a bearing either on the risks involved or on the materiality of the services rendered. Other major considerations are the ultimate value of the services to the client; the complexity of the particular work and the specialized skill of the accountant; special treatment for new clients; the district (city or country) in which the accountant practises; the staff he has available or has specially to employ; and any unusual overheads which may be incurred. While time is admittedly of the essence, it would appear equitable that such of these factors as are relevant should also be taken into account when fixing a fair fee for special work.

¹ See *The Accountant*, dated February 21st, 1953 (p. 199) and 28th (p. 260).

PUBLIC EXPENDITURE

PRESIDENTS of professional bodies, in the course of their term of office, have to make many speeches. In those addressed at annual general meetings and at conferences to members of the bodies of which the presidents are the elected spokesmen, there is usually to be discerned a common pattern. This year, for example, they begin – and rightly so – with mention of the Coronation and of the Sixth International Congress on Accounting. References are next made to such domestic matters as the standard of examinations and the co-ordination of the profession. Then, with an inevitability reminiscent of the progress of a classical drama or an innings by Len Hutton, loom the topics of taxation and the cost of living with all the embroidery of their subsidiary themes and variations.

LORD LATHAM's address to the annual conference of The Association of Certified and Corporate Accountants, held at Folkestone last weekend, follows, with few exceptions, this general trend. One unusual point he does stress, however, is the importance of members conforming to the wishes of the Council in the use of the designation 'certified accountant' and of the letters 'F.A.C.C.A.' and 'A.A.C.C.A.' There are, as LORD LATHAM points out, more bodies of accountants than the public can readily distinguish and the use of obsolete designations, apart from the incorrectness of such a practice, might mislead prospective clients into believing that members who continue wrongly to describe their qualifications belong to some organization not fully recognized. We agree with the PRESIDENT that the official nomenclature of members of the Association should be strictly observed. The profession is already, in the eyes of the uninitiated, polynomial and a reduction rather than a further extension of labels is essential if confusion is not to be worse confounded.

More than a third of LORD LATHAM's address is concerned with the incidence of public expenditure which, in 1952, amounted, inclusive of rate-borne outlay, to £4,596 million or between 35 and 40 per cent of the national income. The proportion of spending by local authorities included in that total is £767 million, made up of £391 million revenue from rates and £376 million

received as grants from the central government. Readers may remember that the corresponding figure for 1951 (£743 million) was quoted in a leading article on the cost of local government in these pages two weeks ago when it was pointed out that, of that total, education accounted for £269 million and housing for £107 million. Considerable as these annual amounts are, it is probable that they would have been even greater if Government controls and shortages of manpower and materials had not restricted building by local authorities during these two years. The inevitable consequence, therefore, of more houses becoming available when controls are eased and labour and materials are more plentiful, would appear to be further increases in rates.

LORD LATHAM proposes two kinds of remedy, one internal and the other external, for the present unsatisfactory state of affairs or – should it be? – affairs of State. The first is that because of the growing complexity of the relationship between central and local governments, a complete review of the division of the cost of public expenditure and the responsibility therefor, is now appropriate. Another reform to be tackled in this connection is the reorganization of local government areas and powers. A greater measure of independence should be given to local authorities if they are to continue to be held accountable for more than one-sixth of the annual public expenditure. These measures, together with closer supervision of the costs of administration, would be likely to result in substantial economies, but a further effort is required if we are permanently to enjoy the advantages of the welfare state to which we seem to be committed.

LORD LATHAM's second, and external, kind of remedy is starkly simple. It is that we must all work harder in order to increase productivity and lower costs. This doctrine is not new, but in a world which seems to have grown weary it is often conveniently forgotten. Last year £1,400 million of the nation's total expenditure of £4,596 million went on defence. If the abundance of material things which would help to eliminate the fear of want and, consequently, the fear of war is to be forthcoming, then there is no alternative to hard and unremitting effort for many years to come.

COMPULSORY SALE OF SHARES

AUDITORS' CERTIFICATE OF VALUE DISPUTED

THE articles of a private company frequently provide for the compulsory sale of a deceased member's shares to surviving members. Such articles must of course provide for the ascertainment of the proper price to be paid. The more the draftsman tries to provide for all eventualities the more difficult it becomes to apply the article to an actual case. The most practical course is often to provide that the matter be conclusively determined by a certificate of the auditor or some other accountant.

An article which leaves valuation to the auditor usually also provides that he shall be deemed to be acting as an expert and not as an arbitrator, this addition being intended to exclude litigation about the valuation. However, even this will not prevent litigation if the auditor not only gives a certificate of value but also gives the reasons for arriving at the particular value. If the reasons given reveal that the valuation was arrived at on what the Court considers to be a wrong basis, the certificate can be set aside. This is the gist of the recent decision of MR JUSTICE HARMAN on a preliminary point in *Dean v. Prince and Others* (*The Times*, June 25th and 26th, 1953).

The plaintiff in that case was the sole executrix of the will of her husband who died on November 6th, 1951. At his death he was the registered holder of 140 fully-paid shares of £1 each out of a total issued capital of £200 in Dean and Mulhall Ltd, of Sheffield. This was a private company and one of the defendants. Article 9 (g) of its articles of association was as follows:

'In the event of the death of any member his shares shall be purchased and taken by the directors at such price as is certified in writing by the auditor to be in his opinion the fair value thereof at the date of death, and in so certifying the auditor shall be considered to act as an expert and not as an auditor. . . .'

It would seem that the last word, 'auditor', is a misprint for 'arbitrator'.

Under the machinery of this article the auditors valued the 140 shares at £7 each. The plaintiff wanted more and her solicitors took the matter up with the auditors, pressing them to explain how they arrived at £7. As a result, the auditors wrote to them in the following terms:

'We enclose a few notes which we have prepared to show you how the points you raised . . . have been allowed for in our valuation in so far as we considered them appropriate.'

After setting out certain figures from the last accounts the letter continued:

'In view of these trading results . . . it was clear that no value could be put on the shares on a normal going concern basis other than something purely nominal. It became necessary, therefore, to consider the only other basis which could apply, i.e. break-up value.'

The plaintiff claimed that this basis was fundamentally wrong. The defendants argued that the certificate was conclusive and binding on the plaintiff. In any case, at the most there was merely an error of judgment.

His LORDSHIP said it was well settled that those who had a discretion to exercise could maintain silence as to how they had exercised it, and the Court would not oblige them to break that silence. But if they chose to disclose the motives which impelled them to their decision, a plaintiff might come to Court and impeach those motives. That seemed to his LORDSHIP to be analogous to the present case. As the auditors had chosen to disclose their reasons, the Court was not precluded from considering them.

The partner concerned had maintained the view that if the assets were sold at an auction they would produce £7 a share and that the shares would not have a greater value on the 'going concern' basis. But he had not looked at the substance of the matter – what was for sale was not 30 shares but 140 shares and a controlling interest in the business. He had taken the view that the company would never make a profit, and ought to be wound up. But it had made a trading profit over a number of years and there was no urgency to terminate it.

His LORDSHIP declared the valuation to be not binding on the plaintiff and granted an injunction to restrain the company from acting on it. He refused to declare on what basis the valuation ought to be made.

The importance of this decision is obvious, particularly in the field of estate duty.

THE ACCOUNTANT AND THE FARMER—I

NEED FOR CLOSER CO-OPERATION

by R. W. SMITH, O.B.E., T.D., F.C.A.

The Farming Industry

IN discussing the relationship between the farmer and his accountant it is as well to begin by examining some facts and figures relating to the industry. It is among the largest single industries in the country, judged not only by the volume, value and importance of its output, but also by the numbers employed and the total income involved.

The industry employs directly nearly a million workers without taking into account the many thousands who are employed in subsidiary trades. Everyone today is familiar with the importance that is laid on the volume of output of British agriculture, but it is probably not generally realized that in the report prepared annually by the Commissioners of Inland Revenue it is shown that the total income of agriculture and horticulture as assessed to Schedule D income-tax is only exceeded by the distributive trades taken as a group by themselves.

Relation of Farmer and Accountant Largely Based on Taxation

Since the farmer's relationship with the accountant can be said to be largely based on the effect of changes in taxation in the early part of the last war, it is perhaps apposite to include the following quotation from the report of the Millard Tucker Committee on the Taxation of Trading Profits.

'We understand that the number of businesses at present within the scope of Cases I and II of Schedule D is about 1,950,000. Of these about 450,000 are persons whose total incomes are too low to make them liable to tax and who are not therefore brought into assessment. This leaves about 1,500,000 cases where assessments are made under Cases I and II of Schedule D; of these only about 200,000 are on companies, nearly 200,000 are on partnerships, and the remainder (over 1,100,000) on individuals. The figures for assessed cases include about 250,000 farming assessments.'

In the light of these quoted figures it is rather remarkable on the face of it that most practising accountants have so little contact with the agricultural industry and conversely that so many farmers contrive to grapple with their very complicated taxation and financial affairs without

the aid of a qualified professional accountant.

One purpose of this first article is to try and convince both the farmer and the practising accountant that there is ample scope for a union between them that will be not only to the advantage of each other but which can eventually render a great service to the country as a whole by promoting the advancement of an industry on which the continued prosperity and standards of this country depend as much as on any other single industry.

The reason why the relationship is not as complete as it should be is not difficult to find. Less than fifteen years ago the agriculturalist—unless he chose to seek limited liability or had some very special feature attaching to his activities—did not have to concern himself at all with the problems of Schedule D and merely complained about having to pay (in addition to his tithes) Schedule B and possibly Schedule A income-tax, if he also owned his land.

Occasionally, a farmer who had had a bad season would discover that if he submitted figures to the Inland Revenue proving that his trading results fell short of the Schedule B assessment he could claim relief, but many farmers considered that dealing with this aspect was seldom worth the trouble and expense involved.

Schedule D Substituted for Schedule B

However, a very material change took place in the early years of the war. The substitution of Schedule D complications, for the blissful simplicity of Schedule B, made it imperative for most farmers to keep a detailed financial record, and in many cases to consult a professional accountant. But the onset of excess profits tax caused a much greater stir. It was the discovery that wartime taxation was to be measured in relation to the excess of profits over certain pre-war standard years that caused the greatest upheaval and a rush to produce accounts for those years on which the standard profits were to be based.

It is, in retrospect, regrettable that the prime need for farmers to consult accountants arose from a desire to put themselves right about taxation rather than to benefit from the more solid

and lasting services which the accountant has to offer. Thus the relationship got away to a rather bad start. The farmer felt that he was being forced to incur professional fees merely to deal with what was an unpopular tax, the conscientious accountant felt a sense of frustration because the service which he had to offer was not being fully utilized but was being subordinated to a somewhat narrow purpose.

Reference has been made above to the fact that relatively few practising accountants are in close contact with the agricultural industry. Once again the reason is not difficult to seek. It springs primarily from the fact that the practising accountants tend very naturally to congregate in the larger centres of population and to avoid the rural areas – it scarcely needs saying that exactly the reverse applies to the farmer.

Farmer's Choice of an Accountant

But there is another important feature here. The average farmer dislikes correspondence, and seldom can he afford a secretary. He is therefore in a somewhat different position from the ordinary man of business who incurs little disadvantage in engaging an accountant at a distance to look after his affairs. It is the farmer's tradition that he comes to town once a week to transact all the business that he can possibly do by personal call – his bank, his merchant, his solicitor and now his accountant. It is almost certain, therefore, that the farmer's first consideration in consulting an accountant is a question purely of geography – and it is for this reason that the urban accountant is very far removed from this aspect of the accountant's practice, which falls almost exclusively to the lot of the rural practitioner.

It was therefore unfortunate for the accountancy profession that in the early days after the application of Schedule D to farmers, and the imposition of excess profits tax, it was not numerically strong enough in the rural areas to cope immediately with the enormous influx of work that arose in consequence. As a result, the more comprehensive service and advice that the accountancy profession had to offer became subordinated to the more pressing needs of the moment which were to ensure that the farmer was properly assessed to tax and paid no more than his just dues.

It was also an unsatisfactory feature that, owing to the acute shortage of practising accountants properly qualified in every sense of the word to undertake the work, many farmers were obliged to accept the services of other persons who had some knowledge but with in-

sufficient qualifications and experience to ensure that the professional service provided was complete, efficient and comprehensive. Much disillusionment has resulted and many farmers have found out, sometimes too late, that the employment of any but the best advisers in this field can prove to be a very costly affair.

Agriculture is by tradition a very conservative industry, and although it is becoming apparent that many of the more progressively-minded in the industry are seeking to obtain the full benefits of proper co-operation with the accountancy profession, there are many others to whom this realization has not yet become a practical experience.

Financial Advice from the Accountant

It is apparent that whatever may be said to the contrary, the assessment of taxation on profits, so far as the agricultural industry is concerned, has come to stay and quite apart from any other consideration, for this reason alone the services of the accountancy profession will therefore remain in demand. The time has come, however, when this should be regarded as secondary to the more practical benefits that can accrue to the farmer from proper financial advice and assistance.

We have now very nearly seen the end of the period when produce of all kinds would find a market for itself, more often than not at a controlled price which nearly always left a reasonable margin of profit. Subsidies are being removed or reduced, buying pressure is reducing, import restrictions are being taken off and production and marketing are becoming once again highly competitive. The limelight of public opinion has produced some fair comment, but at the same time a great deal of ill-informed comment, about the price at which agricultural produce appears in the greengrocer's shop and the easy way of life and the generous rate of profit enjoyed by farmers.

The consumer remains mystified why there should be marketing boards for only some items of produce, and why there should be price controls and subsidies in certain directions but not others. The farmer is puzzled and frustrated when he hears of hard currency being used to buy the same sort of produce which he for some reason is unable to sell at a price which will cover his own costs of production and marketing.

It is not the purpose of this article to suggest that the accountancy profession can point a way towards solving all the problems that arise, but there is nevertheless a vast field of oppor-

tunity which lies open and in which, it is submitted, the profession can provide very valuable assistance in the solution of some of the problems that arise.

It is an accepted fact that scientific research and the proper application of its results have been largely responsible for the enormous increase in the productivity of agriculture in the United Kingdom since 1939. There is ample evidence that productivity can for this reason be still further increased, as indeed it must be if our economic equilibrium is to be properly restored. But the remarkable paradox exists today that a farmer who is employing all the advantages of scientific research and mechanization in his production may still be content with financial methods which were abandoned by most other productive industries many years ago.

At this point, however, it is necessary to issue a warning note lest the analogy between agriculture and other industries is taken too far. The manufacturer is generally in a position to exercise almost unlimited control over the quantity and quality of his product. This is far from being the case with agriculture. The imponderables of weather, not only in this country but overseas, parasites, disease and epidemics have a large effect on the quantity and quality of production. Except in certain limited fields there is as yet no real solution to bridge the gap between one year's glut and another year's shortage and we still have no fully effective remedy for the unsatisfactory spectacle of a prolific crop not being worth harvesting, while a short crop can sometimes provide a fortune for the grower.

The manufacturer can regulate his output, the farmer, once he has planned his rotation, can make little alteration. Another feature which constitutes a major difference is that the agricultural industry is of necessity organized in a large number of small units—mostly consisting of individual enterprises, the majority of which are still based on the family unit. Rationalization into large units is for many reasons not practicable.

Co-operation Among Individual Farmers

On the other hand, in agriculture there is probably a much greater element of co-operation among individual farmers than exists among other trades where small units predominate. Considerable co-ordination and mutual assistance take place through the medium of such bodies as the National Farmers' Union, especially in its county branches, and the various national societies dealing with specialist activities. There has

been through such organizations much valuable exchange of information on the financial and economic aspects of farming as well as on more technical matters.

Accountant as Natural Partner of Farmer

Where, then, lies the sphere in which the accountant can operate as the natural partner of the farmer? It is in principle very similar to that in which the accountant is the adviser and assistant to the manufacturer or trader.

In almost every other field of industry and commerce the management will seldom move very far on any project without full consultation with the accounts and costing departments. Indeed, most progressive managements include a qualified accountant on the board of directors—even if they do not, the chief accountant occupies an important position in the chain of organization. It is seldom that an agricultural establishment is of sufficient size to justify the inclusion of a full-time accountancy expert, but for the smaller unit, down to the individual farmer running a family business, the services of a professional accountant are always available for consultation on matters of financial policy.

Reference has been made, deliberately at some length, to the history of the relationship between the farmer and the professional accountant, which had its origins largely in the necessity dictated by the demands of taxation. This necessity involved the preparation of annual accounts and there, unfortunately in many cases, the matter has been left. The service rendered by the accountant has been regarded largely as a matter of history, giving details of results for last year or the year before which, by the time they are available, can have no practical effect on the course of current operations or future policy.

The careful and up-to-the-minute study of a farmer's accounts can, however, be a fruitful source of advice and help. This is already recognized in the production of statistics for certain specific purposes as, for example, in the costings in relation to various marketing boards and the annual price review. But if this research has a role to play in such limited fields, is there not every reason for saying that there is much greater scope for wider application, and in individual cases?

It is not the purpose of this first article to embark on detailed instructions for keeping accounts, but a few examples of the useful co-operation that can exist will illustrate the objects of this article.

ORGANIZATION AND FEES IN MEDIUM PRACTICES

A DISCOURSE ON ACCOUNTANTS' WORK PLANNING, CHARGING RATES AND POLICY MATTERS

by R. SPROULL, C.A., F.C.W.A.

Importance of Organization and Fees

1. **A**LTHOUGH for the purpose of this paper my remarks are put forward from the point of view of a medium-size practice, accountants with every size of practice will find that the matters discussed are also of interest to them. I have in mind that a medium-size practice would have a staff of eleven to fifty persons (including up to, say, five working principals).

2. Every practitioner has three classes of technicalities to bother him. One is technical client-service: that is an established class for discussion at conferences. The other two classes are in the title of my paper. Since the depressions of the 1930s they have been growing in significance, for organization everywhere has become more complex. If organization is neglected the framework cannot exist to give service to clients. And likewise, failure to maintain a sufficient standard of fee-earning and collection soon unfits any pretensions to practise. Hence, today, organization and fees are at least of as equal importance as is client-service; the total time they absorb, too, in the office can be as great as is client-service time.

The Business Type of Accountant

Changes in economic circumstances outside the profession have killed the 'social lion' accountants and made possible the business (i.e. professional) type of accountants. For the maintenance and expansion of medium-size practices they rely on spontaneous goodwill and on adequately paid assiduous performance of their duties. New clients come from recommendations of existing clients rather than from social contacts. They take clients whose reasons for change are not their present

to the last war, accountants strained themselves and their staffs too hard to get the maximum number of days chargeable to clients. However, this proved grossly uneconomic owing to the consequential drop in output quantity and quality and the increased rate of illness. An accountant who conforms to the standard of chargeable days is a much more effective accountant. In this regard there is a number of relevant tables in my book,¹ and for our present purpose I adapt from its page 47 the following:

CHARGEABLE DAYS TARGET CALCULATIONS FOR A PERSON SCHEDULED AS FULLY PRODUCTIVE

Item		
1	Total in year	365 calendar days
5	Sundays, Saturday afternoons, Bank Holidays, etc., deductions	85 " "
6	Balance at this point:	
	Days paid for by salaries	280 " "
10	Summer holidays (16), a little illness (8), and non-productive organizational (30), deductions	54 " "
11	Balance at this point, i.e. where 5½-day week worked and no special Saturday morning time off - Target	226 for 7-hour day
14	Saturday morning deductions	22
15	Balance at this point, i.e. where 5-day week worked	204 " "
16	Note: Where hours worked are 7½ per day, add 7 per cent and so add (to Item 15 Target) 14 days, making	
		218 days of 7 hours each

5. Two hundred and twenty days of seven hours each appears to be the most attainable annual number of chargeable days per fully-productive person for medium-size practices. By reason of their duties in regard to organization and non-chargeable matters, principals are frequently not fully-productive persons. For some individuals to attain 10 per cent more temporarily is not impossible. Over a period of a few years for one person, or for the average result in one year of a group of fully-productive persons, there are no grounds for a net gain to the practice by exceeding the indicated standard: an appearance of some gain

work done. Armed with the programme or other estimates of time required for recurring individual jobs, a next common series of steps is to list jobs according to the period when the work is to be done, i.e. to lay down plan controls; from long-term and short-term aspects. Long-term control is particularly necessary when a practice is subject to an occasional or annual sudden marked or seasonal variation in the volume of business or staff. Then it may be necessary to rearrange drastically both the intake and output of work, i.e. moving forward or backward the projected dates for working on particular jobs. The period of the plan is most likely for half a year, or a year broken up into thirteen four-weekly periods. In each period the jobs to be done and the amount of time of the key or principal grades allotted to each job are stated for each client. The task is to reconstruct the plan so as to (1) match clients' expectations of work to be done and the expected labour available or required and (2) know the consequences to be expected or business action to be taken where they cannot be matched. Incidentally, to ensure a steadier flow of work this may call for rearranging some clients' year-ends (to no disadvantage to the client).

Short-term Plan

7. The most commonly used plan record is undoubtedly the short-term, the form used being one which has a perpendicular column for names of jobs brought forward and eleven other similar columns, one for each day of its period (say two weekly) and otherwise has horizontal lines for each clerk. It gives daily a bird's-eye view of the occupation of all productive persons at least. In the perpendicular columns the time allotted (or used) is entered for any job on the day it is to be done. How far forward it is written up will depend on the number of days the individual jobs named will be available to the appropriate staff. Principals may be included as well. One clerk in charge of several others may be entered as one, and not separately, while other variations, such as setting out specially excess time may be introduced, depending on the organizational circumstances. Incidentally, it helps to urge attention to getting in a sufficiency of books or ensuring books are made available at clients' premises, so that there is a steady flow of work for all persons.

Audit or Work Programmes

8. Next we can come to audit or work programmes for jobs – one for each job – which are by the very title 'programme' predetermined. Basically, they arise from three working points of view, viz:

- working the books;
- working the personnel;
- working the balance sheet (or final objective).

Which of these three types of programmes you should operate is decided for most of us by organizational targets. The smaller the staff and the more jobs to be done the more appropriate is the books-programme,

i.e. listing the books and for each book setting out the job operations or steps to be done in the work. At the other end of the scale where there is a large staff and jobs take longer, the personnel-programme can be the most useful, i.e. a separate list for each person or grade of the job operations assigned to him. The balance-sheet programme classifies the subsidiary work under their final objective heads. It might be said, therefore, it works backwards and tends to reduce the amount of detail work. It lends itself more to incorporating some aspects of the books-programme than of the personnel-programme.

Job (Plan) Control for Accounts Work

9. However, there is a good deal more planning to be done before a job programme (especially work involving accounts) can come into operation or be made fruitful. Such another section of the planning is control of the job from the point of view of detail progressing it as a job. This aspect also ensures that (although each of the stages below are independently pursued) no job or detailed stage is overlooked. Thus, for an accounts preparation job, there could be a frequently reviewed visible card index, or a list, on which more outstanding stages of jobs are noted for one work year (or according to the ruling for several years together) such as dates for the jobs:

- (1) Year-end.
- (2) When books wanted by the accountant.
- (3) When circular sent to client to send in books.
- (4) When (complete) books received.
- (5) When (complete) books returned.
- (6) When work on job started.
- (7) When work on job finished.

Naturally routines have to be established from other operations or records to ensure the facts getting into the above job control and chasing up. Maybe, as a final stage, perusal of the typists' daily time sheets or reports can inform the job control of accounts which are typed or dispatched to clients.

Job (Plan) Control for Non-accounts Work

10. The preceding plan remarks concern what may be termed accounts work and jobs (or some operations) taking more than a short time. This leaves out such jobs which take a small amount of time at each occasion that they are tackled in the work year, such as simple jobs ancillary to completing returns of income and dealing with assessment notices and demand notes. This group can be controlled by a 'tax forms (job) list' – for each tax year – with columns for each step to be taken, thereby progressing say, twenty-five cases on a page to show their position at any time to their conclusion. The short-term plan will mention these small-time jobs at the height of their season as a bulk item, or when they loom sufficiently large, and will also refer to them at the occasion for the periodical overall review of such lists.

Job Plan Checks

11. In a live practice there can be no escape from some planning, for there are so many features in practice which will absorb attention prior to that which they should receive. Even if a principal does it personally, the labour involved in plan work is little compared with the very good business benefits derived. It is advisable to have one person control the whole of the work plans. If it is done only mechanically it will not serve the many purposes it can. The plan clerk is at the core for complementing those things which should have been notified to principals by others. In that regard, for example, before accounting matters for a client are started for the current occasion, the plan clerk should ascertain that the extent of the time the matters may take should conform to some predetermined indications which have taken into account the possibility for reductions or the merits and needs for increases over the previous year or compared with some standard. Periodical verification checks on the completeness of the plan controls are essential. Time ledger balance lists afford such a check. So also do the necessary periodical inspections by the plan clerk of all working papers in the hands of each of the staff and principals. The more jobs and the more clients per 1,000 guineas of fees, the more these tests are necessary.

TIME AND BILLING

Time Units

12. Following these remarks on some of the overall organizational things of medium-size practices, I turn now to those in the billing sphere, beginning with time. The basic time unit used by the most advanced accountants locally and throughout the world is the quarter-hour unit for the type of work small and medium-size and some large practices do. In such offices it becomes second nature to talk of time as units. Hours do not get mentioned, the next higher term being days (i.e. 28 units a day). The advantage of using units is that there are no fractions or decimals; this simplifies control and writing up of time, improves the accuracy of time sheets, time ledgers and time abstracts.

Overhead Time

13. How detailed should be the individual and accumulated recordings of non-productive or overhead time? The extent of recording overhead time is less uniform in the profession than is time spent on clients' work. The methods of recording overhead time can involve a number and variety of time classifications which will depend on organizational outlook and efficiency. Thus, is the objective simply to record it and forget about it, or is it to be a key part of the balancing necessary to ensure all staff time bought is accounted for (and costed), or is it to get targets for present or future control of this time, or is it to be certain only some things in it have been done? These are a few of the approaches to this subject, which are not mutually exclusive of each

other and so can be integrated as one, as experience is gained in them. Naturally, productive times lost, unassigned, or defective, come into the overhead category and their future standard can be reduced materially by periodical reflection on their past comparative and future or prospective tabulations.

Client-service Time Ledger

14. Time ledger accounts of client-service are indispensable. That the work of all but few clients varies materially yearly, is easily the most common experience in all sizes of practices. The magnitude of these variations would often be too obscure at crucial stages without the time ledger. Those who try to run without some accurate self-balancing time-ledger records are bound to lose many times more than their compilation and use would cost. The extent of the analysis detail in accumulation of time in each client's time-ledger account is a matter for individual decision, but for most practices it can rarely be analysed into less than five heads or job numbers.

*Group
Job Nos.
Key Letters*

- | | | |
|--|---------|---|
| (1) Accounts preparation, writing-up and auditing, i.e. | .. .. . | A |
| (2) Tax work | .. .. . | T |
| (3) Secretarial (including company or partnership) matters | .. .. . | C |
| (4) Other work of a special type | .. .. . | S |
| (5) Planning, review, billing and collections | .. .. . | P |

Job Numbers and Scales

15. However, experience shows these five job numbers are insufficiently precise for the purpose of accumulating time on the many varieties of items to be charged or billed to clients. For that charging purpose, and also to provide the accountant with useful data as to fluctuations between one year and another of the time for a particular client, and also as a help to give reliable standard times for plan control, and for repetitive jobs where separate analysis is required or special reference made in the bill, more job numbers can be used, such as for the tax group:

Scale Relative Standards	100	150 or more	200 or more	Func- tional Job No.	Functional Job Description
Scale Title	SAS	OATS	CS		
			x	TL2	Excess profits levy
			x	TE2	Excess profits tax
		x		TE5	Schedule E expenses claim
	x			TF11	Simple returns of income
		x		TP8	Property assessments
			x	TBD	Back duty

i.e. the group job number 'T' followed by a letter and number code as expressive of an abbreviated description of the job. Incidentally, at any stages of planning, time recording, or for the filing or marking of papers where job descriptions are appropriate, the functional job number is used to describe the kind of job, and of course this itself is a time-saver. A complete list of job numbers used in a medium-size practice runs to over 200 items.

Bulk Time

16. However, not all direct productive client-service chargeable time need be posted in detail to individual client accounts in the time ledger. In particular, time of less senior personnel, such as operators effecting 'phone calls, time in typing letters or filing, time in copying masses of forms of returns of income, are examples of such items of direct client-service which can be posted to a bulk time account for each service. The time-guineas for these can be brought in to the time abstract when billing by a standard for the type of case or from a brief glance at the job's papers, or by an inspection count of the spikes of papers for the particular client for each important job. Historically, these kind of things have behind them a long tradition as being direct time. If in billing they are ignored as directs to particular clients, their recovery depends on the margin arising from rates chargeable for time being adequate to provide for their recovery: as clients' work varies so much, this is not likely to be fair as between one client and another, or the same client on different occasions.

17. As a footnote to the foregoing paragraph, it may be observed that the time of more senior persons spent on 'phone calls is included in their direct time to the individual clients at a minimum of one unit. Of course, that is not an excessive charge for the pivot such time is, since a 'phone call is often an interruption and compels a thought to decision or other actions, or invariably is preceded or followed by a reference to papers.

CHARGING RATES

Charging Rates Formula (S A S) for Staff

18. It would be incomplete for me not to mention charging rates. Let me say first, for the sake of clarity, that - if there be a subsequent discussion - a series of rates compiled on one principle is a scale. The *lowest* scale is the S A S and the formula I have found most in operation is the one on page 54 of my book, viz:

'That for every £100 per annum salary rate payable to productive labour -

One guinea fee per day (seven hours) is the rate to charge the client for Simplest Audit Scale work.'

This was set out on page 61 like this:

CHARGING SCALES FOR STAFF ENGAGED ON MIXED JOBS			
	Guineas per day of 7 hours		
	SAS	OATS	CS
	i.e.	i.e.	i.e.
Salary Rate per annum	Simplest Audit Scale	Other Audit and Tax Scale	Complicated Scale
£100	1	1½	2
200	2	3	4
300	3	4½	6
400	4	6	8
500	5	7½	10
600	6	9	12
700	7	10½	14
800	8	12	16

Notice that rates do not increase in advance of rising costs, although they can increase simultaneously with such cost changes. Because of the former there is no special difficulty in charging the rates ruling at the time of billing. Of course, in making increases of rates there may be a few cases in every hundred which should be treated differently because of some special factors.

Principals' Rates

19. When my friends and I were making our researches for my book, we discovered many varieties of charges for principals' time. Their essence I now give from page 85 of my book.

PRINCIPALS				
MINIMUM RATES FOR AVERAGE PRINCIPALS IN GUINEAS				
Column	1	2	3	4
Practising alone or in partnership in 1947	New Principal NP	Principal TP	Experienced Principal GP	Senior Experienced Principal SP
Grade of Principal				
Years of experience as Principal, e.g.	Nil to 3	3 to 10	10 to 20	Upwards of 20
1. Per day of 7 hours:				
SAS work	to 10	10 to 14	12 to 15	15
OATS work	10 to 14	15 to 21	18 to 21	20 or 21
CS work	14 to 20	20 to ?	23 to ?	25 to ?
2. Per hour:				
SAS work	to 1½	1½ to 2	2	2½
OATS work	1½ to 2	2 to 3	2½ to 3	3
CS work	2 to 3	3 to ?	3 to ?	3½ to ?

These rates presuppose a principal is doing principal's work. Note that these were minimum rates. They assume from the S A S (simplest audit scale) basis that the equivalent of a staff-salary for principals would be thus:

Grade number	1	2	3	4
Salary	£1,050	£1,200	£1,200	£1,700
	to	to	to	to
	£1,050	£1,200	£1,700	?

(These figures would be less than the practice profit.)

No person worthy of being a principal of his grade and years can be worth less than these salary and charging rates, even in the country. Independent investigators have let it be known that in their view the average practising accountant's income is £2,000 per annum.

Rates Generally

20. Where lower rates than the standard are charged on the plea that lower costs than the standard prevail, is it surprising that the end result in principals' incomes is also lower? In fact the alleged lower costs are too often the result of a failure to do something in the practice. This failure is most likely to be a deficiency in providing the various business records which are referred to in this paper or implied in installing the proper internal accounting for the practice. The important point is not that the costs of these things increase the costs but that they justify amendment of the practice rates to the standard and enable a recovery of more fees than the extra costs while still giving very good value for the fees charged. Indeed, an accountant who runs his practice on

modern techniques gets a mastery of affairs which makes him a better accountant, an improved technician to his clients.

Official Rates Possibilities

21. No one has been able to point to a practice which has suffered adversely from adopting a rigid attitude of requiring adequate fees. Many accountants though, have complained to others of their sufferings – too hard work and not enough money – from a fluid attitude on inadequate fees. Many of the difficulties of the latter can only be overcome by a practising accountants' body laying down minimum rates. The idea is sometimes mooted that such minimum rates would become maximum. There is not the slightest foundation for that view and exponents of it must think accountants are natural economic weaklings. That idea is refuted by the past and present experiences of other professions as well as of our own. Thus, in some fields of accountancy work there are certain ridiculously low rates prescribed, yet one does not find accountants charging less than these official rates. On the contrary, many accountants have techniques of making the too low standard rates the very basis for their being supplemented by additional charges where this is warranted. Those who might charge less than an official minimum could not get much business in any case. They would be a set of individuals who could not deliver the service clients require. They would lack the essential requirements of successful practice, an appreciation of what has to be done and what it is worth; they would function by rote. It would be easy to identify these persons and to prevent them practising if the profession made up its mind to do so. Official general rates should in the first instance permit of their being upgraded until sufficient experience indicated this was unnecessary. The important thing at the moment is for accountants whose salary-fee formulas do not attain the well-known recognized standards to conform to these standards. This will be easy if they examine what they do for their clients and reckon what would be a fair *quantum meruit* in each case. The next stage is for such an informed accountant to pass on his earnest convictions to his client and stick to them. No commercial profession gives such good value to its patrons as does the accounting profession. But some clients need to be shown this is so for their particular case. Incidentally, where the firm's standing and experience bring something more than the minimum to a case, then higher-than-minimum charges are appropriate. The least that anyone should have raised his charging rates by since 1947 is stages of 10 or 15 per cent. Those with more skill will have done better and their principals' and staff salaries will have reflected this.

MATTERS OF POLICY

Slack Season Work

22. Should slack season work be billed at lower scales? This should offer a professional person no difficulty.

It is really a cut-throat competitive business man's question. Accountants used to have to meet it often. Happily now in Britain this problem has not been so much to the fore in recent years. There can be several approaches to it. I prefer to stick to the purely professional, because it is the only lasting solvent in a competitive economy. The broad principle is uniform work, uniform client, uniform charge, irrespective of the season: more could be said on this question, but time permits me only to repeat that slack seasons can be modified or reduced by some attention to the practice organization.

Allowances

23. Allowances are necessary in a few extreme cases. They may be made in the process of billing unknown to the client, or shown on the bill, or given after the bill is rendered, or in writing off a bad debt. Their purpose is, of course, to get payment of as much of the appropriate scale as can be got, and, if he is worth it, to keep the client satisfied. In total for a year they tend to vary per practice, but as a percentage of the total fees generally, 5 per cent would be low and 10 per cent can be high, yet quite a healthy figure. To get an appreciation of what is involved, take a group of fees totalling in one year to £1,000 and the next year the rates are increased by, say, 25 per cent, i.e. one-fourth, then the group should yield £1,250, but if the increase cannot be made effective for, say, a section of £200 (at the new rates) and the section yields only £160, the allowances arising total to £40 (but note there is a gain of £210 and the total fees collected will be £1,210 out of £1,250); the percentage of new allowance losses being therefore £40 of £1,250 = 3 per cent.

24. Allowances of too low a figure in a practice indicate some abnormality and not usually a good one at that. Generally, it points to scales being too low, too much work being done for too little money. It is surprisingly easy to remedy and in the process increases goodwill immeasurably.

Quotations

25. A quotation for almost any work should contain a sum for unspecified contingencies. This is because from the very nature of accountants' work it is impossible to judge precisely in advance of doing the work what is going to arise in it. Besides the very fact that a quotation is being asked indicates the client is of an abnormal type. No accountant could maintain his practice at current charging rates if he had to quote clients for all work before he did it. The best clients and the normal or average ones never dream of asking for a quotation; they have ample confidence in their accountant. The client who wants a quotation makes specious excuses why he needs it. His inclinations are to limit the amount he will spend on accountancy with either no heed or too little intention to limit the work of the accountant. That type of client lives in a fool's paradise if he thinks

an accountant can throw in gratuitously the extra services which contingencies create. In the end those clients only get what they pay for (not what they think they pay for); they prove to be the direct losers and nuisances to accountants. Their unfairness must be rammed home to such clients, and if they are too adamant their work is best refused. The essential minimum for acceptance of such a client's work is inclusion of a wide enough margin for contingencies, and what that margin must be can be gauged empirically if it is remembered that in small or large traders' live practices one-third of the fees should be from non-recurring work, the type which contingencies should cater for. If a sufficiency for contingencies is not included in quotes, it can exclude the possibilities of these cases making normal contributions to non-recurring fees.

Unethical Fixed Fees and Quotes

26. A fixed fee is really a recurring quote and so exaggerates the objectionable aspects of quotes. Both are undesirable nowadays as they are heavily weighted against the accountant, and they partake too meagrely of professionalism. The ethics of the profession should ban fixed fees and quotes as unethical as percentage fees, since they have too little regard to the desirable amount of professional work. The onus of what is to be done and what is to be paid for in fixed fees and quotes lies too much with the client, invariably, indeed, the type of client whose integrity when dealing with accountants is far too low. Both depend on the skill of the accountant being adequate to foreseeing what time will require to be devoted by each grade of person at its appropriate rate in the various scales of work. This is much beyond the skill and second sight of accountants as such (in any but the simplest and smallest fees or quotes). After all, the practitioner - and not the client - is the best judge of the extent of service which can be usefully rendered and as the work develops his skill and professional integrity ensure the necessity of the time devoted to a cause.

Ability to Pay

27. If a client's financial ability to pay is less than the extent required the obvious professional consequence must be restriction of the work and not a too low fixed fee or quote. When a new client requests service, a first consideration must be his ability to pay. Where the newcomer is likely to be no better than a sticky or an unsatisfactory payer, then ample cash in advance is indicated as a prerequisite to service. Accountants have a need to restrict their service, or more usually to give no service without payment, where tax liabilities of the client are more than one or two years in arrears. That applies even to a new client who may consult an accountant after, say, only two or three years in business or to a regular client who has used his tax money for expansion or to a long-standing client who has become a back duty case. Service of any kind which is rather extensive com-

pared with the normal extent of work for the kind of client is another reminder that business demands cash in advance. Instalment debit notes (with no details of work done) and interim bills are becoming necessary in more cases to ease the payment by the client and to effect an equitable promptness to the *quid pro quo* of the accountant. Also, there is a growing custom of extensive use of monthly instalments to accountants by bankers' orders from clients which in effect give payments in advance of work done for the earlier months of a yearly work cycle, and provide an assured monthly cash income without collection troubles.

Partnership and Other Cases

28. Working on bills is a never-ending education till one attains an expertness that can bring every case to a proper category for comparison and comprehensiveness in the brevity of bill wording and the evident justness of the *quantum meruit* charged for the individual client. Thus, one must not overlook the importance to a new business client of referring to getting the opening figures of his business. In the case of a partnership (e.g. of two persons) it has sometimes to be underlined that the accounting work may be double that of a single trader and the tax work three times as much, and that the fee paid by the sole trader next door is no criterion. Then there is the case of the person who has three separate sources of income (e.g. a business, investments and property). As these three are merged for tax purposes, thereby making a fourth group, such a person has four (not three) sources of tax matters or problems, yet will think his fee should be as low as his friend who has only one income from a business.

Natural Billing Time

29. A natural billing time for recurring accounting clients is when the accounts are sent to the client for signature, or otherwise finished by the accountant. Whether or not the accountant has prepared tax computations based on the accounts, the line is best drawn at that stage; that is before the accounts are sent to the Inspector, so that in the next bill one of the first items will be the sending to the Inspector of the accounts whose preparation was paid for in the previous bill. In the same way any other work arising upon these accounts would go into the bill covering the dates when the work was done. To include such work in a bill for a recurring client before it is done involves the accountant in unnecessary risks of underestimating, and with difficult clients leads to other losses. For other recurring clients who are not accounts clients the various plan-control lists can indicate their billing cycle stage. Generally, this should be when the work cycle has been completed, but if the completion is postponed, then at no later than a year from the previous bill or start of the work.

Finally, I may observe that all organization and fee routines are capable of being done by staff and their delegation frees principals for alternative work.

WEEKLY NOTES

British Accountants in South Africa

Under Clause 30 of the Public Accountants' and Auditors' Act, passed by the South African parliament in 1951, an accountant and auditor under the Act cannot share profits derived from his practice, or practise in partnership with an unregistered person; nor can he practise under a firm name or title which includes the name of any person who is not or was not during his lifetime ordinarily resident in the Union.

As it is necessary to be resident in South Africa in order to qualify for registration, the effect is to prohibit partnerships between South African and United Kingdom accountants; the effect is also to debar South African partners of United Kingdom accountants from carrying on business under existing firm names.

The operation of these provisions of the Act was deferred for a minimum period of five years as regards existing partnerships. The Public Accountants' and Auditors' Board, which was set up under the Act, has, in accordance with a direction from the Minister of Finance, begun an inquiry at which interested parties, including The Institute of Chartered Accountants in England and Wales, will give evidence. The Board has held its first session and has now adjourned until August 3rd.

The Institute of Chartered Accountants of Scotland

The first summer school for members of The Institute of Chartered Accountants of Scotland is now in progress at St Andrews University. It opened at tea-time yesterday and will continue until next Wednesday morning.

The School is divided into nine groups, each of about twelve members, and it was appropriate that the first lecture, given last evening by Professor John Read, F.R.S., M.A., SC.D., B.SC, PH.D., should be on 'Historic St Andrews and its university', so enhancing the inspiration which the members must inevitably derive from the surroundings which form the background for their studies and discussions, and thus, in large measure, setting the seal of success on this first venture of this nature of the Scottish Institute. Later in the evening, the President, Mr John L. Somerville, C.A., F.R.S.E., presided at the official dinner at St Salvator's Hall.

The first paper, on the subject of 'Some auditing doubts and difficulties', is being presented this morning by Mr James T. Dowling, C.A.; this afternoon an address on 'Monetary policy' will be given by Mr Archibald D. Campbell, M.A., of the University of Glasgow.

Tomorrow morning there will be a service in St Salvator's Chapel, conducted by the Rev Professor Edgar P. Dickie, M.C., M.A., B.A., B.D., D.D. In the afternoon two papers on 'Annual reports and

accounts of limited companies', by Mr C. I. R. Hutton, C.A., and Mr A. McKellar, C.A., will be presented. Other papers, to be submitted on Monday and Tuesday, are 'Management accounting' by Mr Ian T. Morrow, C.A., F.C.W.A., and Mr R. W. Parker, C.A.; and 'Cost accounting' by Mr W. S. Risk, B.COM., C.A., F.C.W.A. We hope to include summaries of the various papers in our next issue.

Income-Tax in Gibraltar

Despite considerable local opposition, income-tax is being imposed this year in Gibraltar for the first time. It replaces the former Trade Tax which represented about 4 per cent of the Budget, i.e. some £40,000. The standard rate is two shillings in the £ but individuals are to pay rates varying up to four shillings. Earned income relief is one-fifth, single personal relief £400, with an additional £150 for a wife and £75 for each child, so that most wage and salary earners will pay little, if any, tax. What traders will pay is perhaps anyone's guess and the £20,000 budgeted for is little more than a shot in the dark. According to Tuesday's *Financial Times*, business men in Gibraltar may try to circumvent the tax, by creating new companies in the international zone of Morocco, just across the Straits.

Making Emergency Laws Permanent

The Emergency Laws (Miscellaneous Provisions) Bill, which was introduced in the House of Lords, has received its second reading in the Commons. It represents part of a long and perhaps unnecessarily drawn-out process by which the many emergency regulations introduced in the war are being sifted, those of no further value being repealed and those which have proved to be of permanent value being embodied in legislation of more permanent form than Defence Regulations. The present Bill is a hotchpotch of miscellaneous regulations which it has already been decided to retain; there may be some amendments in committee. The first one is that which permits a person under 21 years of age to drive an agricultural tractor on the road as well as on the farm. The second permits the towing of an articulated vehicle.

Clause 2 puts on a permanent basis the Defence Regulations which amended the provisions of the Trading with the Enemy Act, 1939. The winding-up process of this Act is a slow one. Clause 3 extends the powers, under the Explosives Act, 1875, to control the use of gunpowder and safety fuses. The control is less close than under the wartime regulation which the clause replaces. Clause 4 gives power to continue the issue of what are in effect identity cards for seamen, which serve them in the place of passports in foreign ports. The shipping industry is to meet the cost, the cards being useful in connection with

employment arrangements. Clause 5 continues the arrangements under which local authorities can let as allotments land not otherwise available for that purpose. Clause 6 makes permanent a part of Defence Regulation 72 which removed a difficulty about licensing vehicles to carry harvest workers. Clause 8 perpetuates the power of the Court in settlement to order that payments with regard to management and the like, which ordinarily would be made by the person having the income of the settlement, can be made by the trustees out of capital, where the person having the income is in difficulties owing to the war or taxation. The remaining two clauses deal respectively with the taking of affidavits by naval officers and offensive trades. Two proposed new clauses will deal with midwives and the heavy goods vehicle driving licensing system.

Appointed Day for Steel

The Minister of Supply has fixed Monday, July 13th, as the appointed day under the Iron and Steel Act. His decision was announced in the House of Commons on Monday. On the appointed day the iron and steel securities now held by the Iron and Steel Corporation will vest in the Holding and Realization Agency. At the same time the Treasury will take over the Corporation's rights and liabilities on the 3½ per cent. Iron and Steel Stock which will be renamed '3½ per cent Treasury Stock, 1979-81'. Exactly when the Agency will make its first offer of iron and steel shares for sale, and the identity of those shares, remains unknown. The Agency is under duty to obtain the best prices and will of course choose the nature and timing of its offers with that end in view.

Misleading Trade Descriptions

Caveat emptor – let the buyer beware – is still a basic principle of our law, but the flood of scientific discoveries, synthetic materials, and new systems of packaging, make it ever more necessary for even the most prudent buyer to depend on the honesty of the seller. The Merchandise Marks Act, 1887, made it an offence to sell goods to which a false trade description was applied. This was defined as a statement false in a material respect as to (among other things) the number, quantity, measure, gauge, weight and place of origin of the goods. The Merchandise Marks Bill, introduced this year, and given its second reading in the Commons last week, widens the definition of trade descriptions so as to include other characteristics now commonly referred to. These include quality, fitness for purpose, strength, accuracy, performance, and behaviour. Proposing the second reading, the President of the Board of Trade gave as examples 'fadeproof' cloth, 'rainproof' coat and 'accurate' timekeeper. Moreover, misleading, as well as false, descriptions will be punishable. A person selling 'whisky' in a bottle which did not actually bear the word 'Scotch' but did bear a representation of a tartan and a Scottish sounding name would probably also, if the contents were not in fact Scotch whisky, infringe the provisions of the new Bill. On the other hand, it will still be permissible to assert that 'beer is best' and make similar assertions, while existing registered trade-marks will still be protected. Traders will have a six months period of grace after the Bill is passed to sell the goods which they have already in stock. The Bill takes the opportunity to bring the penalties into closer relation with the present value of money.

CURRENT LAW

Agreement Signed on Sunday

Section 1 of the Sunday Observance Act, 1677, provides that no tradesman, artificer, workman, labourer or other person whatsoever shall do or exercise any worldly labour, business or work of his ordinary calling on Sunday, works of necessity or charity being excepted. Section 3 provides for further exceptions such as the 'crying' of milk in the early morning or late afternoon. Section 1 imposes a penalty of five shillings for each contravention. It has been held that the section operates to render void any contract entered into on Sunday if it is otherwise within the section.

An estate agent sued a client for commission on the sale of his house, but the client resisted the claim on the ground that the agreement under which the commission was payable was obtained by misrepresentation and, moreover, it was signed by the defendant on a Sunday and therefore was avoided by Section 1 of the above Act (*Gregory v. Fearn*, *The Times*, June 25th, 1953).

The terms of the section are very wide – but it

has been somewhat narrowly construed, partly perhaps because the cases turning on it were usually prosecutions. When a barber was prosecuted under it for shaving people on Sunday it was held that he was not a tradesman, artificer, workman or labourer (*Palmer v. Snow* [1900] 1 Q.B. 725). As to the words 'other person whatsoever' these were held in earlier cases to be cut down to refer to people of the same kind as those set out, under the *ejusdem generis* rule.

Judge Caporn, sitting at the Nottingham County Court, held that the contract in the present case was obtained by misrepresentation and was also in breach of the Sunday Observance Act, 1677. He was upheld in the Court of Appeal on the misrepresentation point but the Master of the Rolls expressed the opinion that an estate agent was not one of the persons hit by Section 1 of the Act.

Contract Ousting the Court's Jurisdiction

Clauses in commercial contracts which require an unusually high standard of proof are not infrequent.

The effect of one such clause was discussed in the Court of Appeal in *E. & D. Thomas v. H. S. Alper & Sons Ltd* (*The Times*, June 26th, 1953). The clause read:

'Proof of delivery will only be accepted when a delivery note is signed by the company's receiving clerk.'

The plaintiffs sent 350 metal boxes to the buying company under a contract containing this clause, but as the vanman could not find anyone on the company's premises to take delivery, and the van was required elsewhere, the vanman left the boxes outside the premises. The company refused to pay on the ground that it had not received the goods and in any case was protected from liability by the clause quoted above. Judge Andrews, sitting in the Bow County Court, found as a fact that the goods had been delivered and gave the sellers judgment for the price. The company appealed.

The Court of Appeal held that, although as between themselves the parties might agree that the production of a signed delivery note should be a condition precedent to a claim for payment, if an action was brought they could not oust the ordinary jurisdiction of the Courts to hear witnesses and to decide the matter according to the ordinary rules of evidence. This decision would apparently apply equally to a condition that receipts for money are not recognized by the concern receiving the money unless they are on the concern's official receipt forms.

Sale of Unroadworthy Car Illegal

Anyone who buys a car which is unroadworthy cannot be compelled to pay the purchase price. This is the effect of the decision of Mr Justice Streatfeild in *Vinall v. Howard*, reported in *The Times* last Tuesday. Section 8 of the Road Traffic Act, 1934, makes it an offence to sell a motor vehicle in such a condition that the use thereof on the road would be contrary to regulations made under the Road Traffic Acts. The prohibition is absolute so that the seller commits the offence even if he did not know the vehicle was unroadworthy. The car in the present case being admittedly unroadworthy, His Lordship held that the seller was not entitled to enforce the cheque which had been given him in payment for it, since the whole contract was tainted with illegality.

Contract: Frustration - Arbitration

The plaintiff in *Kruse v. Questier & Co Ltd* (*Solicitors' Journal*, April 18th, 1953) contracted to buy from the defendants Iraqi barley to be shipped as to half between September 15th and October 15th, 1951, and as to half between October 15th and November 15th, 1951, under a contract which provided for arbitration in the event of dispute and that if fulfilment should be made impossible by prohibition of export, the contract should be cancelled as to any part remaining unfulfilled.

Owing to the dry season in Iraq no barley could be shipped and the date of shipment was extended to the end of December 1951 and January 1952 respectively. In December 1951, the Iraqi government prohibited the export of barley. The defendants maintained that the performance of the contract became impossible not later than August 31st, 1951, and thus that the contract was frustrated. They also asserted that as this was so, any submission to arbitration was ineffective and the award made without jurisdiction.

Pilcher, J., held that the question whether there was frustration was one which arose under the contract within the meaning of an arbitration clause and was thus a dispute which an arbitrator had jurisdiction to determine. Where the contract was treated as a subsisting contract until a dispute arose as to whether events had occurred justifying one party or the other in the contention that the contract had become impossible of performance, the point was one which fell within an arbitration clause providing that disputes arising out of the contract should be referred to arbitration. The observations of the noble lords in *Heyman v. Darwins* ([1942] A.C. 356) confirmed him in this view. The award was therefore binding.

Breach of Foreign Contract: Damages - Law Applicable

In *J. D'Almeida Aruajo Lda v. Sir Frederick Becker & Co Ltd* (*The Times*, May 13th, 1953), Pilcher, J., found for the plaintiffs in their action for damages for breach of contract, awarding nominal damages of 40s. The plaintiffs purported to sell palm oil f.o.b. Angola to the defendants which, as the latter knew, they would obtain from a third party. They accordingly entered into a contract with a Mr Mourao for the supply of the oil, which provided that if either party failed to complete he would pay the other an indemnity of 5 per cent of the total value. The defendants breached their contract and so the plaintiffs were unable to fulfil theirs with Mr Mourao, to whom they accordingly paid £3,500, which sum they now claimed from the defendants. The latter asserted that the law applicable was English, not Portuguese.

The learned judge found that the defendants had broken their contract by not opening within reasonable time an irrevocable letter of credit. He held that the loss suffered by the plaintiffs was clearly not foreseeable by the defendants and that under English law it would not be recoverable. In his view questions of remoteness of damage were governed by the proper law, while questions of quantification were governed by the *lex fori*. In this case the question was, he felt, one of remoteness of damage, which was to be determined by Portuguese law, under which the plaintiffs could recover. Inasmuch, however, as the plaintiffs failed in their duty to mitigate the loss, they could be given only nominal damages.

FINANCE AND COMMERCE

With the half-yearly bank 'window dressing' completed, the gilt-edged market is looking a little firmer. A resumption of corporation borrowing has, if anything, assisted in the market's recovery. Some selective support for industrial equities has been received to give home sections generally a firm appearance. Price movements, however, rather flatter the volume of business.

Ragusa Asphalte

From the reprint of the consolidated portion of the accounts of the Ragusa Asphalte Paving Co Ltd, the company's main problem is clear. There is a pressing shortage of cash. This has led the directors to take various decisions which are discussed later in these notes, but to fix the position clearly it is necessary to go back to March 1949, when building started on a new factory for the company.

It was three months after a peak profit year, which had brought a group trading profit of £128,052, that building began. At the time the company had three factories manufacturing asphalt, all were out of date and uneconomical and one was threatened with demolition. The board decided - as the chairman stated when reviewing the position last year - that one central factory was essential, equipped with modern plant capable of producing mastic, economically and efficiently, precisely to clients' specifications.

Construction of the factory was completed in August 1951, and six months later it was fully and satisfactorily mechanized. Meanwhile there had been a very severe change in trading conditions. In 1949 trading profits were reduced to £96,354 and in 1950 bad weather and growing competition meant a reduction to £59,434, while in 1951, with both these factors worsening, profits were reduced further to £30,757, and for the first time for fifteen years there was no ordinary dividend.

Special Report

It was when reviewing 1951 operations that the chairman drew particular attention to the 'paucity of available liquid resources'. The directors, he stated, were taking advice as to the best method of rectifying the position. If and when the desired result was achieved, the board would consider the possibility of compensating members for the dividend missed. But 1952 brought no easing of the situation and again dividend has been passed.

This brings us to the point which 'Lex' in the *Financial Times* has described as 'somewhat disturbing'. The chairman, referring again to the shortage of cash, reports that: 'After consultation with our larger shareholders, Messrs Deloitte, Plender, Griffiths & Co were instructed to make a report upon the affairs and management of the company. This they did. Their report suggested various ways in which the organization of the company could be improved and

the necessary steps are being taken in this regard.

'It has proved desirable before raising further capital,' the chairman continues, 'to wait until the benefit of this reorganization begins to show itself and there is real evidence of expansion in major construction work. In the meanwhile the board have agreed to the formation of a committee representing the larger shareholders.'

Large and Small

The 'somewhat disturbing' point is that certain shareholders in the company should have been given - and apparently are to continue to receive - information concerning the company's operation which is not disclosed to the general body of members. Larger shareholders were consulted before the special investigation into the affairs and management of the company was carried out and the committee representing the larger shareholders will, it must be assumed, be given the information the accountants' report contained. It is not suggested for one minute that the company has anything to hide. The set-back in earnings is to a considerable extent outside the company's power to control and the position would in all probability have been worse had not the policy of concentration at the new works been followed. But when the time comes for new capital to be raised, small as well as large shareholders may well be called upon to participate and both should be equally well informed. The annual meeting of the company is being held next Monday, July 6th. Perhaps smaller shareholders attending the meeting will learn more then.

Money Market

Treasury bill applications totalled £327,370,000 on June 26th, £22,775,000 less than the previous week. Maintaining the bid at £99 8s 2d the market obtained 66 per cent of requirements. The average discount rate was fractionally lower at £2 7s 3.75d per cent. This week's offer is £250 million with corresponding maturities at the same level.

RAGUSA ASPHALTE PAVING COMPANY LIMITED
AND ITS SUBSIDIARY COMPANIES

Schedule of Fixed Assets

	1951	1952
	£	£
Freehold Buildings at cost	6,940	6,941
Less Provision for Depreciation	694	1,041
	6,246	5,900
Leasehold Buildings at cost	88,088	86,406
Less Provision for Depreciation	9,717	10,022
	78,371	76,384
Plant and Machinery at cost	160,498	176,620
Less Provision for Depreciation	62,002	72,283
	98,496	104,337
Furniture, Fixtures and Fittings at cost	6,991	7,168
Less Provision for Depreciation	3,703	4,214
	3,288	2,954
Transport Vehicles at cost	23,275	26,236
Less Provision for Depreciation	14,815	17,731
	8,460	8,505
Premium on Lease	4,210	4,210
Less Amount written off	301	401
	3,909	3,809
	£198,770	£201,889

RAGUSA ASPHALTE PAVING COMPANY LIMITED
Consolidated Balance Sheet

December 31st, 1951 £		£	£
	Capital, Reserves and Undistributed Profits		
	Share Capital, Ragusa Asphalte Paving Co Ltd:		
	Authorized and Issued:		
150,000	300,000 Shares of 10s each, fully paid		150,000
27,723	Capital Reserve:		
	As at December 31st, 1951		27,723
57,433	General Reserves		
44,041	As at December 31st, 1951	101,913	
439	Add (a) Profit on Sale of Trade Investments		495
	(b) Transfer from Reserve of French Subsidiary		
101,913		102,408	
1,989	Reserve for Future Income Tax		
	(One quarter of 1952-53 and all 1953-54 Assessments)	1,353	
109,163	Profit and Loss Account		
765	Ragusa Asphalte Paving Co Ltd, balance per Appropriation Account	£111,598	
109,928	Undistributed Profit on Subsidiary Companies	748	
2,695		112,346	
107,233	Less Accrued Loss on one Subsidiary	3,217	
		109,129	
211,135			212,890
388,858			390,613
939			1,122
156,004	Interest of Minority Shareholders in Capital and Undistributed Profit of Subsidiary Companies ..		
68,039	Current Liabilities		
29,648	Amount due on Trade and Other Accounts	145,778	
253,691	Bank Overdraft (see note 1)	82,392	
	Taxation	11,876	
			240,046

Notes.

(1) The Securities comprising the Company's Trade Investments are held by the Company's Bankers as security for the Bank Overdraft.

(2) The Fixed and Current Assets and Liabilities of the Company's French Subsidiary have been converted into sterling at the current rates at December 31st, 1951 and 1952, respectively.

£643,488

£631,781

RAGUSA ASPHALTE PAVING COMPANY LIMITED
Consolidated Profit and Loss Account

December 31st, 1951 £		£	£
7,758	Staff Superannuation Fund Premium		7,800
14,854	Depreciation of Buildings, Plant, Machinery, etc.		17,638
8,145	Net Profit for the year before Taxation, carried down		8,323
£30,757			£33,761
	Provision against Advances to a Subsidiary in an Earlier Year		1,844
3,961	Provision for Taxation, based on Profits for the Current Year		
1,041	Income Tax	3,862	
	Interest on Profits Tax	9	
5,002			3,871
189	Proportion of Profits of Subsidiary Companies attributable to Minority Shareholdings therein		182
530	Balance for the year		
7,238	Profits carried forward by Subsidiary Companies	1,365	
7,768	Available for appropriation by Ragusa Asphalte Paving Co Ltd - carried to Profit and Loss Appropriation		
1,779	Account	2,435	
		3,800	
5,989	Less Loss carried forward by one Subsidiary Company	1,374	
£111,180			2,426
			£8,323

Profit and Loss Appropriation Account of

December 31st, 1951 £		£
109,163	Balance proposed to be carried forward - as per Balance Sheet	111,598
£109,163		£111,598

AND ITS SUBSIDIARY COMPANIES

December 31st, 1952

December 31st
1951

£

290,002
91,232

198,770

7,665
54253,083
18,559

34,524

581
51863
34,587

241,565

45,476
173,731174,212
(6,154)168,058
14,658

401,923

£643,488

Fixed Assets

Freehold and Leasehold Buildings, Plant and Machinery, Furniture and Fittings, and Transport Vehicles:

At Cost or, in the case of the French company, as valued by Directors at December 31st, 1945

Less Provision for Depreciation (as per Schedule)

£

307,581
105,692

£

201,889

Montrottler Concession:

At net Book-value (July 1st, 1948)

Goodwill of Subsidiary Companies at Cost

Preliminary Expenses of Subsidiary Companies

7,665
5427,665
542

Trade Investments (see note 1. [Not reproduced. - Editor.])

(a) Holding at December 31st, 1951, as valued by the Directors at December 31st, 1942

(Market Value at December 31st, 1951 - £86,216)

Less Book Value of Shares sold

34,524

3,831

Holding at December 31st, 1952 (Market value December 31st, 1952 - £81,164)

30,693

(b) At Cost

(Less Amount realized) plus additions

£63
79

142

30,835

Total

240,952

Current Assets

Stocks on hand, at or under cost

Work in Progress (less amounts received on account) at estimated contract prices as certified by the Managing Director

Amounts due on Trade and Other Accounts (including payments in advance and dividend receivable)

Less Provision for Discounts and Doubtful Debts

47,753

157,435

£192,395

11,942

180,453

Balances at Bankers' and Cash in hand

5,208

390,849

H. M. HANNAY } Directors.
P. W. FARLEY }

£631,781

AND ITS SUBSIDIARY COMPANIES

Year to December 31st, 1952

December 31st,
1951£
25,009
5,748

—

£30,757

Profit on Trading after deducting remuneration of management, maintenance of Buildings, Plant and Machinery

Dividend (gross) from Associated Company

Profit on Sale of Trade Investment during the year

Note. - Fees and Salaries of Directors of Ragusa Asphalt Paving Co Ltd, in respect of the management of the Company and its Subsidiaries, have been charged as under:

1951

£

706

7,759

£8,465

Fees

Salaries

£

700

7,750

£8,450

£

23,411

5,918

4,432

£33,761

8,145

Net Profit for the year before Taxation, brought down

8,323

3,035

Provision for previous Taxation, no longer required

Note. - The basis upon which the provisions for depreciation have been calculated in the case of Leasehold Buildings and Plant Machinery has been modified during this year. Cost of Leasehold Buildings have been provided over the term of the lease and no provision has been made for plant not yet in use.

£11,180

£8,323

Ragusa Asphalt Paving Company Limited

December 31st,
1951£
7,238

101,925

£109,163

Balance for the year, available for appropriation by Ragusa Asphalt Paving Co Ltd, as shown by Consolidated Profit and Loss Account

Balance brought forward from last year

£

2,435

109,163

£111,598

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

**'Accounting Principles':
Historic Costs Defended**

SIR, - I should like to express my thanks to Mr Briscoe for his article 'Replacement profit is false' (June 6th issue) which was especially welcome at a time when many accountants are obsessed with the idea of reforming accounting principles owing to inflation.

It was fortunate that Professor Baxter's article on 'Accounting principles: the conflict in current theory' came the following week, as he takes the opposite view, and these points occur to me:

There is no virtue in change for the sake of change, as Professor Baxter seems to imply, and there is no justification for the use of the word 'liberal' in describing his fellow-believers.

Surely the chief interest of shareholders in the balance sheet is to see how their capital has been used, and what the going-concern value of the undertaking is, which can only be shown by the historic cost basis.

I doubt if Professor Baxter really believes that the example he gives of the treatment of plant and depreciation on the revaluation basis would be of more benefit to shareholders; it must be barely comprehensible to most accountants! The information contained therein is, of course, of great value to management, but ought not to be published, and is not balance sheet material.

The use of standard costing certainly does not prove that historic costs have failed to do their job, it merely proves that the field of historic costs is limited to the truth about the past, estimates about the future being beyond its province.

If a firm buys goods for £1,000 and sells them for £1,500, a profit of £500 has been made, irrespective of the time-lag and the depreciation of the pound. Professor Baxter contends that a price increase of 50 per cent would cancel out this profit; but when it is considered that had the £1,000 been retained as cash the firm would subsequently possess £1,000 as compared with the £1,500, it is obvious that £500 profit has in fact been made by the purchase and sale.

To carry Professor Baxter's theory to its extreme, depreciation should be written off cash in the balance sheet, which is absurd. Furthermore, if a company could claim that an orthodox profit were eliminated by increased prices of replacing stock, it seems equally fair that a company which retained a cash

used to measure real values, and to attempt to achieve this is to forget the fundamental nature of the functions of money.

It must be restated that there is no flaw in the tried and trusted methods, and the solution to the problem lies not in falsifying accounts and doctoring accountancy procedure in order to deceive our legislators and the public as to the extent of profits, but in adapting the taxation system to take inflation into account, and to ensure that the government and the interested public are fully aware of the dilemma of plant and stock replacement, and the economic effects of high taxation. We must not, in other words, show profits as being, in monetary terms, smaller than they really are, or non-existent where they have been made, but must emphasize the need for tax relief for replacements of plant and stock in a period of inflation, and explore the relationship between taxation and inflation and their effect on the economy. The taxable profit of a company is by no means its real profit, and the true profit as shown by orthodox accounting methods, ignoring replacement cost, ought to be the published profit figure, even though cost replacement be recognized in some degree for taxation purposes.

To hide profits by introducing real values into financial accounts would only spread confusion and arouse suspicion in the breasts of the advocates of high taxation.

In concluding may I point out that if professional bodies issued no recommendations there would be no uniform system of accounting, and the result would be chaotic, some companies would adopt one method and some another, thus making comparisons useless. Provided recommendations are reviewed periodically, and do not set up to be infallible, they must be a good influence.

Yours faithfully,

Upminster, Essex.

G. W. REED.

Accounting for Inflation

SIR, - I have read the varying shades of opinion regarding 'replacement accounting'; 'accounting for inflation' and now Mr Briscoe's article on the correctness of orthodox accounting. I feel that there has been a lamentable lack of thought regarding the real issues involved.

If the unit of length measurement - the foot - were to vary from month to month, even day to day, and in particular, become steadily shorter, would we

The pound sterling is a unit of measurement in exactly the same way. The persons concerned with accounting should devote their energies to persuading the government that a stable value for the pound must be made and that value must be based on production, i.e. the general level of prices must remain constant. Only in this way can the problems of business, pensions, taxation and accountancy be solved.

Please, sir, some commonsense!

Yours faithfully,

A. J. NIELSEN.

Chartered Accountant.

Hainault, Ilford, Essex.

'Replacement Profit is False'

SIR, - Mr H. A. Briscoe in his article in your issue of June 6th concludes from an example (page 672) that:

'Hence the income generated by the creation of the wealth was exactly spent on consuming it.'

This is what the advocate of replacement cost accounting would claim should be the case in the circumstances outlined, but it is certainly not true of the example given. The income generated during the period was in fact as follows:

(a) Paid out to factors of production, other than as profits:	£
On goods produced and sold ..	180
On goods produced but remaining unsold	20
	200
(b) Reported as profit	19
(c) Total income generated	219
(d) Compared with consumption at selling price of	£209

It is because the income generated (as computed on orthodox lines) exceeds the value at selling price of the goods produced that

'after saving part of our income we are no better off in real terms' (page 672).

Savings can be defined in different ways. On the basis used in national income statistics they comprise - to use Professor Paish's terms - both 'money to lend', i.e. voluntary savings and 'money to spend'; 'money to spend' rises in times of inflation, and hence part of total savings in national income statistics in most post-war years can be said to be inflation-produced. It is not helpful in Mr Briscoe's context to say (page 673) that

'the value of the equipment and stocks lying in the pool, represented in our simple case by overdrafts, are necessarily equal to savings',

since some of the savings in question may not be voluntary savings. To compute income at a figure in excess of the selling value of production may lead to excessive spending which will tend to create inflation and hence lead to inflation-produced savings.

It is still insufficiently realized that borrowing from the banks on overdraft can be inflationary, e.g. if borrowings are high and voluntary savings low; if this is not so, why is there concern to keep bank credit within limits?

On a replacement cost basis, Mr Briscoe's example would be set out as follows:

	£	Units		£	Units
Opening equipment and stocks	10	10	Consumption (sales) ..	209	100
Outlay on production ..	200	100	Closing equipment and stock	20	10
Provision for higher replacement costs of equipment and stocks ..	10	-			
Profit	9				
	£229	110		£229	110

On this basis, income generated is £200 + £9 = £209, i.e. equal to the value of production at selling price.

It would take too much space to comment on the many other questions raised. The point at issue is clearly a difficult one, as evidenced by argument covering a period of ten years or so. There have, however, been books written to 'establish the truth' (page 676) of the replacement cost method, including one by the present writer.

Yours faithfully,

K. LACEY.

Cheam, Surrey.

Co-ordination of the Profession

SIR, - I do not agree that 'practising' and 'non-practising' accountancy have but a small common base and suggest that present efforts at co-ordination are being made at the most difficult end, in that attempts are being made to draw together members who have from the start 'grown away' from each other. Would it not be more profitable to start with new entrants and delay this divergence by the institution of a common 'primary' examination to replace the intermediate examination?

I am aware that this would involve a considerable adjustment in order to transfer the specialist subjects to the final examination, and would mean that the passing of the first examination would not take the candidate so far along the road of a particular branch of the profession.

The position on qualifying, however, would be unaffected and the benefits to the profession as a whole would I suggest be inestimable since the very existence of common ground could be a considerable step towards a united profession which could surely, by its single voice, obtain statutory recognition. In the meantime, any strengthening of the bonds between the various bodies by means of mutual membership must surely act to strengthen the profession as a whole.

Yours faithfully,

E. R. KERMODE.

Liverpool 12.

p16057

SIR, - I have read the varied correspondence on this subject with considerable interest and I fail to see why a solution to this vexed problem cannot be speedily achieved. Surely the following suggestions, if carried out, would close the ranks as it were and eventually bar all 'quacks' from practising.

(a) A fourth body to be formed, enjoying full statutory recognition, from the remaining smaller bodies at present in existence and bringing in all non-qualified persons who are in practice on a given date.

(b) No other persons to be admitted unless they have passed the examinations of the new body and also satisfied the requirements laid down as to eligibility, i.e. professional experience, character, etc.

(c) No person, as from that date mentioned in (a), to be allowed to practise as a public accountant unless he is a member of one of the recognized professional bodies.

A designation for the members of the new professional body could be 'registered accountant.'

Yours faithfully,
AUDIT CLERK.

Co-ordination of the Profession: Secretaries

SIR, - I have read with interest the correspondence in your columns during recent months relating to the structure, and suggested co-ordination, of the profession, and I think that a word on behalf of 'qualified secretaries, many thousands of whom must be regular readers of *The Accountant*, is long overdue.

Although logically, the two professions are distinct, they are nevertheless so closely allied, and in practice accountants and secretaries so frequently invade each others' territory, that any legislation affecting the one without providing for the other would appear to be unthinkable.

The Companies Act, 1948, in no way precludes chartered or incorporated accountants from appointment as secretaries; what I therefore advocate is that there should be a special provision in the Companies Act providing that chartered or incorporated secretaries, having obtained the requisite experience in the offices of practising accountants, should be eligible for appointment as auditors.

A very practical suggestion would be that Section 161 (1) (b), be amended by the addition of the words 'and possessing other recognized qualifications' after the words . . . 'member of a body of accountants recognized for the purposes of the foregoing paragraph'.

Yours faithfully,
CHARTERED SECRETARY.

Co-ordination of the Profession: Accountants' Clerks

SIR, - Anent the correspondence 'Unqualified accountants and co-ordination', I feel the suggestion of co-ordination as advanced by Mr Arthur J. Shaw in your issue of June 27th, has definite future possibilities.

There is, however, one point which Mr Shaw and other correspondents have appeared to overlook and that is the question of the position of accountants' clerks in any scheme for co-ordination.

If the profession becomes a closed one I would suggest a secondary scheme becomes a necessity whereby the status of an accountants' clerk receives some recognition. From personal experience of the profession, extending over twenty years, the two main outlets for a clerk who fails to qualify are:

(1) to leave the profession in some disgust and seek a more remunerative occupation;

(2) to remain in the profession and 'graduate' as an unqualified senior.

There are also those clerks who, having obtained some accountancy experience commence to practice and to quote Mr Shaw, become 'part-time dabblers of limited abilities', and it is in this latter sphere where a great deal of damage has been occasioned the profession.

From the remunerative angle I feel that some scheme would have to become operative whereby, should a clerk have remained loyal to his employers over a fixed period or period of years, he should be suitably rewarded.

In other words, if you are to have a *closed* profession it must be prepared to accept certain obligations to the employees who assist its practising members.

May I live to see the day when every persevering senior audit clerk (qualified or unqualified) enjoys the remuneration, pension scheme and status of his somewhat opposite number, the senior bank clerk!

Yours faithfully,
TIP-TOES.

Receipts in Advance of Payment

SIR, - It would be of interest to learn the views of your readers as to what additional checks should be imposed where the practice - common to solicitors, insurance companies, liquidators and others - of demanding a receipt *before* payment is in use.

The danger of misappropriation appears to be great since in many cases the recipients of legacies of distributions by liquidators, and of policy moneys are not necessarily business-minded. Having completed and returned the form of receipt they may not then be aware should the sum which they receive differ from the amount for which they have signed.

In the case of liquidation distributions, the practice appears to be designed so that the shareholder, having signed in advance a form of receipt inseparable from the notice of distribution, and having surrendered the share certificate, shall have no record of either his shareholding, the proposed distribution or the name and address of the liquidator unless he has the foresight to make a note of these particulars. The certainty that the shareholder will notice any short payment is therefore removed. Since this could presumably be covered by an unauthorized variation of the endorsement to the certificate.

Furthermore the frequent use of this form of pre-receipt, as for example in a solicitor's office, would appear to facilitate the temporary borrowing of money by delaying the payment of the sum covered by the receipt until a similar pre-receipt is obtained in another matter. In the meantime what are apparently valid receipts can be produced to vouch the payments.

I should be glad to have the views of your readers as to whether it is ever proper to give a form of receipt for money which has not in fact been received, whether such a pre-receipt requires a twopenny stamp and in view of the fact that such receipts are commonly signed, what additional precautions should be employed in the audit, where the practice is in use.

Yours faithfully,
T. G. FORESTER.

London, W4.

The Rule of the Road

SIR, - I must correct an error made by your correspondent, Mr Stanley Blake Reece, in his letter published in *The Accountant* of May 16th, 1953. The rule of the road in Argentina is now on the right

and has been so for at least seven years. The change-over was made from one day to the next, and although in the city of Buenos Aires, where the greatest concentration of traffic in the Argentine is to be found, a large number of motorists stayed at home on the first day for fear of traffic accidents, it was remarkable how little confusion resulted. Within one week everyone was driving on the right as if they had done so all through their lives, excepting for horse-drawn traffic. As regards the latter, the horses had it firmly in their heads that they should keep to the left and they persisted in doing so unless their drivers kept a close eye on them.

My feeling is that if the majority of countries in Europe and the North American continent - the two greatest concentrations of motor-car users - keep to the right, it would be common sense for the British to change to the right also, without being accused of 'going American.'

Yours faithfully,
W. E. S. HEATH,
Sub-Manager and Controller,
FABRICA ARGENTINA DE ALPARGATAS.

Buenos Aires.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

Stokes v. Bennett

In the High Court of Justice (Chancery Division)

May 21st, 1953

(Before Mr Justice UPJOHN)

Income-tax - Annual payment - Maintenance order in divorce suit - Payer resident abroad - Payer having no income subject to United Kingdom tax - Whether recipient assessable - Customs and Inland Revenue Act, 1888, Section 24 (3) - Income Tax Act, 1918, Schedule D, Case III; General Rules 19, 21 - Finance Act, 1927, Section 26 - Finance Act, 1941, Section 25 - Finance (No. 2) Act, 1945, Section 20.

In 1938 the appellant obtained in the United Kingdom a decree of divorce from her husband, and an order was made that the husband was to pay during their joint lives and until further order maintenance at the rate of £22 a month free of tax. The husband, who was resident abroad, and who had no income subject to United Kingdom income-tax, made the payments under the order.

The husband did not render any accounts of these payments pursuant to General Rule 21, and assessments were made upon the appellant in respect of the sums received by her. The Special Commissioners confirmed these assessments on the ground that the sums received by the appellant were untaxed income in her hands.

Held, that the husband had paid the appellant

the net amounts under the order after deduction of income-tax; and that there was no power to assess the appellant.

Burlah Trust Ltd v. C.I.R.

Halbur Trust Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)

May 19th, 1953

(Before Mr Justice UPJOHN)

Sur-tax - Undistributed income of company - Apportionment - Ability to secure application of income or assets - Apportionment to holder of small interest in company - Whether apportionment valid - Whether apportionment appropriate - Finance Act, 1922, Section 21 - Finance Act, 1938, Sections 38 (3), (4); 40 - Finance Act, 1939, Section 15.

The first appellant company was incorporated in 1937 and the controlling shares were allotted to Mr Burston who entered into a deed of covenant with the company to pay to the company such a sum as, after deduction of income-tax, would be equal to three-quarters of the amount of the net dividends received by him from Houndsditch Warehouse Co Ltd. Mr Burston made a payment of £78,945 under the deed of covenant, and on the same day the company lent Mr Burston £79,000 at 4 per cent interest without security. In 1938 the company's capital was reorganized so that the voting control of the

company was attached to 20,000 deferred ordinary shares of 1s each, and these shares carried the rights to almost the whole of the assets and income of the company. These shares were allotted to the trustees of a settlement created by Mr Burston in favour of his children.

The directors of the company were Mr Halperin and Mr Baker, an incorporated accountant. Until August 1946 the trustees of the settlement were Mr Rutherford, a chartered accountant in the same firm, and Mr R. Lewis, a solicitor. No interest on the loan was paid by Mr Burston, and in August 1939 the interest was waived by the directors of the company. In March 1941 the loan was repaid in the course of a sale by Mr Burston to the company of a large holding of ordinary shares in Houndsditch Warehouse Co Ltd. No further payment of interest was made.

Directions were made on the company in respect of its undistributed income, and the whole of the income was apportioned to Mr Burston pursuant to Section 15 of the Finance Act, 1939. In an appeal against the apportionment the Special Commissioners decided in favour of the company and discharged the apportionment, but on a re-hearing by the Board of Referees the apportionment was restored. In the High Court it was contended that the evidence did not support the Board of Referees' decision that the case was within Section 15; and that the Board of Referees had not exercised their discretion to make such an apportionment 'as appears to them to be appropriate'.

The facts in the case of the second appellant company were approximately the same.

Held, that it was not clear whether the Board of Referees, in considering whether the directors or other persons having powers or rights in the company were likely to act in accordance with Mr Burston's wishes, had drawn that inference wholly from relevant facts; that it was unclear whether the Board of Referees exercised their discretion as to the amount, if any, to be apportioned to Mr Burston; and that, therefore, the stated case should be remitted to the Board of Referees for these points to be reconsidered.

C.I.R. v. Universal Grinding Wheel Co Ltd

In the High Court of Justice (Chancery Division)

May 7th, 1953

(Before Mr Justice UPJOHN)

Profits tax - Distribution - Redemption of preference shares - Premium on redemption - Amount applied in reducing share capital - Companies Act, 1929, Section 46 - Finance Act, 1947, Sections 30, 35, 36.

The respondent company issued preference shares of £1 each, which were redeemable at a premium of 7s a share. In 1947 the company redeemed the shares, and did so partly by an issue of new capital and partly by the application of profits. The premium of 7s a share was paid out of profits.

The appellants contended that the only amount that had been applied in reducing the company's share capital for the purposes of the proviso to Section 36 (1) of the Finance Act, 1947, was £1 a share; while the company contended that the whole 27s had been applied in that way. The Special Commissioners decided in favour of the company.

Held, that the Special Commissioners' decision was correct.

In re Cunliffe-Owen

In the Court of Appeal

May 12th, 1953

(Before THE MASTER OF THE ROLLS (Sir RAYMOND EVERSHED), Lord Justice DENNING and Lord Justice ROMER)

Legacy duty - Abolition of duty - Determination or failure of interest - Event affecting right to legacy - Interest of residuary legatee - Whether assent to distribution an event for this purpose - Legacy Duty Act, 1796, Section 2 - Stamp Act, 1815, Schedule III - Finance Act, 1947, Section 49 - Finance Act, 1949, Section 27.

The testator, who died on December 14th, 1947, left the residue of his estate as to half to a stranger in blood absolutely, and as to the other half to be divided between his son and his two daughters, the son taking three-quarters of the half, and the two daughters the other quarter equally between them. The half of the residue that was left to the stranger in blood attracted legacy duty at the rate of 10 per cent and the additional duty of 10 per cent imposed by Section 49 of the Finance Act, 1947; and the rate of duty on the other half of the residue was 2 per cent.

The appellants contended, however, that no legacy duty was payable in respect of the residue or, at any rate, in respect of that part which had been distributed since July 30th, 1947, or would be distributed in the future. This claim was based upon Section 27 of the Finance Act, 1949, which abolished legacy duty in the circumstances described in the section. It was contended that during the period of the administration of the residue, a residuary legatee had only an expectancy, and that, therefore, when a distribution out of residue was made, an estate or interest, which previously existed in the executors, 'determined' within the meaning of Section 27 (2) (b) of the Act of 1949. Alternatively, it was contended, when the executors assented to a distribution out of residue, an event occurred within Section 27 (2) (e) of the Act, which 'affected' the right of the residuary legatee.

Held, that the title of a residuary legatee in the residue existed from the item of the testator's death, and that no estate or interest of the executors in the residue determined when a distribution out of residue was made; that an assent by the executors to assets of the residue vesting in the residuary legatees was not an 'event' within the section; and that, therefore, the residue was not exempt from legacy duty.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS ANNUAL CONFERENCE AT FOLKESTONE

The annual conference of The Association of Certified and Corporate Accountants opened at *The Grand Hotel*, Folkestone, last Saturday and continued until Wednesday of this week; there was also an extension programme for Thursday and yesterday which gave members and guests opportunities for seeing places of interest in Kent and attending a reception given by the Council of the Association.

The two papers presented at the technical sessions last Monday afternoon are summarized below, and the paper given on Tuesday morning by Mr R. Sproull, C.A., F.C.W.A., is reproduced elsewhere in this issue.

Banquet

The President of the Association, the Rt. Hon. Lord Latham,

J.P., F.A.C.C.A., received the many members and guests who attended the Conference banquet at *The Grand Hotel*, on Tuesday evening.

The toast of 'The Borough of Folkestone' was proposed by Mr Cecil A. Newport, F.A.C.C.A., a member of the Council of the Association, and His Worship the Mayor of Folkestone responded.

His Honour, Judge John Neal, M.C., proposed the toast of 'The Association of Certified and Corporate Accountants' and Lord Latham replied. The toast of 'The Guests' was proposed by Mr W. Macfarlane Gray, F.A.C.C.A., Vice-President of the Association, and the response was by Mr C. Percy Barrowcliff, F.S.A.A., President of The Society of Incorporated Accountants and Auditors.

Shares of No Par Value

In the first session last Monday afternoon, Mr C. W. Holroyd Sergeant, M.A., A.C.A., companies editor of the *Financial Times*, in an address entitled 'Some thoughts on shares of no par value', gave a warning that the examination of the merits and demerits of the no par value share must not become buried in political arguments. Far too much play has been made in the past, he said, on the fact that a share having a nominal value is a much misunderstood term, that it leads to a misconception of risk capital and the belief that capitalist shareholders receive extortionate dividends. But the very term 'nominal value' is itself a warning. Misrepresentation of the role of capital in industry will not be stayed merely by a change of name and attention can easily be diverted from dividend rates to profits.

The speaker then outlined the history of the attempts to secure legal recognition of the no par value share, culminating in the setting-up of a Government committee in October last. The Government clearly considers it essential to know how the system works in other countries. In America no par value shares were introduced in 1912 and about half the public companies there have adopted the no par value system. Canada, Belgium and Italy have also adopted the system.

It is contended that no par value shares make fraud easier but there is little evidence of that, also that the declaration of dividends in terms of money per share might lessen unwarranted clamour from the opponents of capitalist finance. But dividends can be so declared at present.

Logically the no par value balance sheet would consist merely of a statement of assets and liabilities giving a net asset value of the no par value shares in issue stated as a footnote. But would that give the investor a figure of real value? In the opinion of Mr Sergeant the average shareholder would find it more confusing than ever.

Safeguards would be necessary against the issue of no par value shares at any price the company thinks fit; against the danger of paying dividends out of contributed sums and of harming existing shareholders by issuing shares at low prices. No par value should not be forced on existing shareholders and, before any change is made, investors should fully understand all that the change means and implies.

Finally, Mr Sergeant summarized the submissions already made to the Gedge Committee. Of the accountancy bodies, the Association are in favour, with safeguards, while the Institute and the Society seem to lack strong views on the subject. The Chartered Institute of Secretaries, the spokesmen of the institutional investors, insurance and trust companies, the Chambers of Commerce, the Federation of British Industries and the National Union of Manufacturers are all apparently in favour; only the Trades Union Congress actively oppose the system. There has, however, been little sign that the small investor is anxious for a change. Is there sufficient real advantage in the no par value share to justify disturbance of his present apparent content?

Estate Duty and Family Businesses

In the second afternoon session last Monday, Mr F. W. Smith, F.A.C.C.A., F.C.I.S., A.I.B., gave an address entitled 'Estate duty and the family business.' The speaker firstly summarized the estate duty provisions: the types of property chargeable, aggregation and the rates of duty. He then gave two practical illustrations of the effect of these provisions, demonstrating in particular that the valuation of assets for duty purposes is all-important.

In the case of quoted shares the value to be taken is the price quoted on the day of death. With regard to unquoted securities (not including shares to which the Finance Act, 1940, applies) sales at arm's length reasonably near the date of death are normally taken as the basis of valuation. When there are no such sales, the valuation is generally based on yields. If, however, there is a wide discrepancy between dividends and yields the estate duty

office may well hold that primary regard should be paid to earnings.

The 'one-man' business and, generally, the share of a partner, must be valued on a going-concern basis, account being taken of any goodwill. The advantages of converting a business into a company have, however, resulted in an increasing number of private limited companies of which there are now roughly a quarter of a million.

Section 55, Finance Act, 1940, deals with the valuation of a company's shares by reference to the value of its assets and Section 46 deals with the charging of duty on the company's assets themselves. The legislation applies to 'controlled companies', i.e. under the control of not more than five persons for sur-tax purposes.

For Section 55 to apply, the company must have been controlled with the deceased as 'controller', for at least

some period during the five years preceding death. The section is imperative and where it applies the estate duty office must base the valuation on the net asset basis including goodwill. Tangible assets do not give rise to much controversy but the valuation of goodwill is more often than not the result of compromise between the accountant and the estate duty office.

It will be appreciated, Mr Smith said, that it is becoming increasingly difficult for the 'controller' to leave sufficient estate, outside the business, to enable the business to remain untouched. Time and energy, which could be better employed in the business, is spent on this problem. And if he is successful in divesting himself of control he may lay

the company open to an estate duty assessment under Section 46.

Section 46 applies if the deceased had *at any time* made a payment of money or transfer of property to a controlled company, and benefits had accrued to him from that company in the five years preceding his death. A proportion of the company's assets is then deemed to pass on his death. Section 46 is so wide in its scope that the estate duty office has given, and implemented, an assurance that it will be applied reasonably. Where both Sections 55 and 46 are applicable, the estate duty office is normally satisfied by the estate duty chargeable under Section 55.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

RECEPTION ON JULY 8TH

The Secretary of the Institute has asked us to announce that a few tickets for members and their guests are still available for the reception to be held at the Royal Festival Hall next Wednesday, commencing at 9 p.m. Applications, accompanied by remittance, should be made to the Secretary and tickets will be sent by return of post.

Personal

Mr HARRY E. COOPER, F.C.A., practising as RICKETTS, COOPER & Co, Chartered Accountants, of 21 Bridge Street, Bristol, 1, announces that as from July 1st, 1953, he will be taking into partnership Mr J. B. BURKETT, A.C.A., and Mr A. A. REDWOOD, A.C.A. Mr REDWOOD was articulated to Mr COOPER in 1939 and has continued with the firm. Mr BURKETT has also been with the firm for several years. The name of the firm will remain unchanged.

MESSRS DELOITTE, PLENDER, GRIFFITHS & Co, Chartered Accountants, announce that they have admitted Mr JOHN ROLLO REID, A.C.A., as a partner in their associated firm in Paris as from July 1st, 1953.

Professional Note

Mr J. M. A. Smith, A.C.A., Secretary of the Ford Motor Co Ltd, has been appointed a director of Briggs Motor Bodies Ltd.

In Parliament

INTERNATIONAL AGENCIES: TAX-FREE SALARIES

Mr GRIMOND asked the Chancellor of the Exchequer the Government's policy about the payment of tax-free salaries to British servants of international agencies.

Mr R. A. BUTLER: It is the Government's policy to see that British servants of international agencies are treated no differently from the servants of other nationalities of the same agencies. So far as exemption from United Kingdom income-tax is concerned, the matter is governed by the International Organizations (Immunities and Privileges) Act, 1950.

This requires that privileges may not be granted until an Order in Council has been made and approved by each House of Parliament.

Hansard, June 23rd, 1953. Oral Answers. Col. 1685.

POST-WAR CREDITS

Captain RYDER asked the Chancellor of the Exchequer when it is proposed to pay off post-war credits that have been bequeathed to charitable institutions and hospitals.

Mr JOHN BOYD-CARPENTER: I am aware of this particular problem, but I regret I cannot say when it will be possible to authorize payment of post-war credits in these cases.

Hansard, June 25th, 1953. Oral Answers. Col. 2096.

INCOME-TAX: REPAYMENT CLAIMS

Mr HOUGHTON asked the Chancellor of the Exchequer how many claims for repayment of income-tax remained unsettled at May 31st, 1953; how many of these were received more than 14 days previously; and how many more than 28 days previously.

Mr BOYD-CARPENTER: I regret that this information could not be obtained without a disproportionate amount of expense and effort and the delay of other work.

Mr HOUGHTON: Do I understand from the Financial Secretary that particulars which used to be kept of the progress with repayment claims is now being discontinued? If so, is not that a disadvantage in view of the fact that letters have been appearing recently in the columns of the *Financial Times*, including both praise and blame? Is it not desirable that the Treasury should be in a position to make known to the public just what speed they are able to achieve in paying the money?

Mr BOYD-CARPENTER: The hon. gentleman is, I am sure, aware that there is a register in respect of repayment claims received other than through the P.A.Y.E. machinery, which is kept in each inspector's office. The collation and collection of all the statistics would, as the hon. gentleman probably knows better than anybody else, entail heavy work on the staff of the Inland Revenue.

Hansard, June 25th, 1953. Oral Answers, Cols. 2098-9.

CINEMAS: TAX RECEIPTS

Mr H. WILSON asked the Chancellor of the Exchequer the figures of Entertainments Duty recorded in respect of cinema attendances in May, 1952, and May, 1953, respectively, and the percentage fall between the two periods.

MR BOYD-CARPENTER: About £3.30 million in May, 1952, and £3.07 million in May, 1953, representing a drop of about 7 per cent.

Hansard, June 25th, 1953. Oral Answers, Col. 2102.

National Insurance

SHORT PERIODS OF UNEMPLOYMENT AND SICKNESS

The Minister of National Insurance, Mr Osbert Peake, has asked the National Insurance Advisory Committee, under the chairmanship of Sir Will Spens:

'To consider whether the provisions governing the payment of National Insurance benefits for very short spells of unemployment or sickness are the most appropriate particularly in those cases where a claimant is also receiving payments from an employer, and, if not, to make any recommendations which do not increase the liability of the Fund for those two benefits.'

The immediate problem which has led to this reference to the committee, concerns benefit for short periods when the worker remains in the service of the employer though not fully employed throughout the week. Such cases can now arise in increasing numbers, for example, because of the extension of guaranteed wage agreements. Further problems arise as a result of the wide adoption of a five-day working week, when short time is being worked. The comparable rules for sickness benefit in similar circumstances, particularly where sick pay schemes apply, will also be reviewed.

The committee will consider representations on the subject which are submitted by September 26th, 1953, to the Secretary, National Insurance Advisory Committee, 10 John Adam Street, London, WC2.

Chartered Institute of Secretaries

ANNUAL CONFERENCE

Mr Stanley J. D. Berger, M.C., F.C.I.S., Director and Secretary of The Institute of Cost and Works Accountants, will present a paper on 'Recent developments in management accountancy' at the annual conference of the Chartered Institute of Secretaries, which is to be held at Bournemouth from September 24th to 26th next.

Other subjects and speakers are: 'Transport pattern' by Mr S. B. Taylor, B.COM., F.C.I.S., Chief Secretary, British Transport Commission; 'The future of the cotton industry' by Mr C. J. Howell,

F.C.I.S., Director and Secretary, English Sewing Cotton Co Ltd; 'The Companies Act, 1948: success or failure?' by Mr S. J. S. Eley, F.C.I.S., Partner, W. H. Stentiford & Co.

The Institute of Chartered Accountants in Ireland

MAY, 1953, EXAMINATION RESULTS

The results of the May, 1953, examinations of The Institute of Chartered Accountants in Ireland have been announced as follows:

FINAL

Passed: Donald Ernest Archer (Blackrock, Co. Dublin); William Montgomery Carson (Mallusk, Co. Antrim); Gerald Leo Carton (Dublin); James Cornett, (Belfast); Thomas R. W. Dark (Bangor, Co. Down); Malcolm Davison (Belfast); James Mervyn Devlin (Belfast). *2nd place:* Thomas Donnelly (Dublin); George Evans Egar (Dublin); Harold Alexander Ennis (Belfast). *1st place, 'Arthur H. Muir' Memorial Prize:* Columbanus S. Finegan (Newry, Co. Down); Joseph Gerard Geary (Limerick); Edward James Hayes (Dublin); John Joseph Kelly (London); Owen Joseph Michael Lemass (Dublin); John Robinson Loughead (Portadown); Ian David McLerie (Dublin); Brendan Joseph Martin (Dublin); Maurice Murray-Hayden (Dublin); Peter O'Hara (Belfast); Denis Gerard Mary O'Kelly (Dublin); Donal Joseph O'Mahony (Dundalk); *3rd place:* Dermott O'Neill, (Limerick); John Francis Ross (Dublin); David Gerard Wilkinson (Sutton, Co. Dublin); Alexander Noel Williams (Belfast).

37 Candidates failed to satisfy the examiners

One candidate was deferred for re-examination in one subject under Bye-law 81.

INTERMEDIATE

Passed: Sylvester Patrick Boland (Ballybrack, Co. Dublin). *3rd place:* Peter William Britton (Dublin). *1st place, 'John Mackie' Memorial Prize:* Patrick Brosnan (Dublin); Joseph Dermot Carton (Dublin); Michael J. Clancy (Dublin); Charles Edward Connor (Ballina, Co. Mayo); Ronald Lewis Coppel (Belfast); Michael Derrik Corbett (Athenry, Co. Galway); John Frame Darcy (Greystones, Co. Wicklow); Nelson Alexander Davidson (Belfast); James Doolan (Dublin); Thomas Vincent Finn, (Dublin); Roger Thomas Garland (Dublin); Charles Frederick Smyth Gibney (Belfast); John Francis Hughes (Dublin); John Dixon Hulatt (Belfast); George William Bryan Jennings (Belfast); Patrick Joseph Kavanagh (Dublin); Robert Vincent Kiely (Tipperary); Bartholomew Kilcoyne (Dublin); Noel Alexander Lawther (Belfast); Stanley Laurence Little (Belfast); Laurence J. Lowth (Dublin); Francis Ian McCrae (Belfast); Peter McWilliam (Belfast); Thomas Patrick Hugh Magill (Holywood, Co. Down); Michael Francis Maher (Dublin); Maurice William Mills (Belfast). *2nd place:* Denis Anthony Murphy (Dublin); Denis Nesbitt (Belfast); Peter Hugh Nicholl (Belfast); Brian Kevin O'Hegarty (Dublin); Maurice Edmund O'Kelly (Dublin); Thomas Ronald Robinson (Belfast); John Nelson Savage (Belfast); Ann Mary Spain (Dublin); Denis Raymond Spence (Belfast); James Desmond Traynor (Dublin); Harold James Winter (Belfast).

59 candidates failed to satisfy the examiners

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International Management Congress

The tenth International Management Congress is to be held at São Paulo, Brazil, from February 20th to 25th, 1954, under the auspices of the International Committee for Scientific Management. The Brazilian 'Instituto de Organizacao Racional do Trabalho' is organizing the arrangements for the Congress with the full support of the Brazilian Government and of Brazilian industry and commerce, while the British Institute of Management will be responsible for the arrangements of the British delegation.

The object of the Congress is to provide the occasion for an international exchange of views on practical aspects of management and eight main papers will be presented, each of which are the responsibility of a particular country working in collaboration with other countries; there will be, also, opportunities to visit industrial, scientific and other establishments in Brazil.

English, French and Portuguese will be the languages used for presentation of the papers and the discussions, simultaneous translation facilities being provided.

The Congress fee is £10 10s 0d which entitles delegates to attendance at, and reports of, sessions, the banquet and social events. The fee for wives or relatives of delegates which entitles them to attend the plenary sessions, banquet and social events is £7 7s 0d.

Readers wishing to attend should write to the Director, British Institute of Management, 8 Hill Street, London, W1, when the necessary forms will be sent for completion.

The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants

The annual golf competition of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants for the Campbell Cup was held at Elsham Golf Club, Lincolnshire, on Friday, June 19th.

The winner was Mr H. J. Cole, of Grimsby, with a net score of 69, and the runner-up Mr R. B. Jones, also of Grimsby, with a net 71. Mr Jones was followed closely by Messrs R. Taylor (Scunthorpe), and J. M. Smith (Grimsby), with scores of 72.

The cup and prizes were presented by Mr N. B. Hart, President of the Society.

Commercial Conditions in Japan

The Board of Trade announces that a review of commercial conditions in Japan was published last Thursday; copies may be obtained from Her Majesty's Stationery Office, price 4s 6d (post free 4s 9d).

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 7TH, 1928

Extract from a letter to the Editor

Registration for the Profession

In your leading article of the 23rd June you state that you believe that time will prove that a very large proportion of work obtained by touting accountants is not worth having. Believe me, you are entirely wrong in this assumption. The accountant in practice in a small town has to rely almost entirely upon small work, and a ten-guinea client is to him quite as important as a hundred-guinea one is to an accountant in London or some of the larger towns. It is this idea of the dignity of the profession which is, I believe, delaying registration. The members of the councils of the Institute and Society are mostly men with big practices, and they have, one might almost say, the "cream" of the work, and they do not, and perhaps cannot, appreciate what the small man has to put up with. I speak from experience, as I have already said, because I am glad to say I have both the big work and the small work. This competition from outside accountants is undoubtedly serious. I could give many instances, but one will probably suffice. Some few years ago I took straight from school a youth about sixteen years of age. He was with my firm just over two years, and then left to commence in practice for himself in the same town. He took two or three of the smaller audits with him; goodness knows what the clients were thinking about, but the fact remains, and he was made almost immediately a Fellow of one of the outside bodies. Registration for the profession would have the effect of entirely eliminating such cases. . . .

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 6TH, 1878

Extract from a Note in Passing

The Liability of Directors

A marked element of uncertainty always pervades questions as to the liability of directors. Of them it may be said with a greater than usual approximation to truth that the unexpected always happens. This probably arises from the fact that the office of director in a public company is often assumed by nondescript individuals for rather equivocal motives. Scinting afar off the probability of failure, they hasten to get rid of the responsibilities of their position by dubious means, which the law promptly disallows when the circumstances are investigated. Thus it happens that we so often read of directors, who seemed to the uninitiated to have made their retreat absolutely safe, but are nevertheless finally pounced upon and mulcted both as contributories and litigants. . . .

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VOL. CXXIX. NO. 4099

CONTENTS

Leading Articles	Page
Exchequer Equalization Grant	29
The Finance Bill - VII	30
Inhuman Efficiency	31
Special Articles	
The Accountant and the Farmer - II by R. W. Smith, O.B.E., F.D., F.C.A.	32
Works Planning and Cost Control in the Car and Sheet Metal Industries by H. H. Norcross, F.C.W.A.	38
Weekly Notes	43
Finance and Commerce	
Howards & Sons Ltd - Henry Hope & Sons Ltd - Cartwright & Edwards (Long- ton) Ltd - Money Market	45
Reviews	47
Correspondence	
Accounting for Inflation - Treatment of Taxation in Accounts: <i>Hutton v. C.I.R.</i> - 'The Accountancy of J. M. Keynes' - 'Mistake in Con- tracts' - Accountancy Quali- fications	49
London and District Society of Chartered Accountants	
Eleventh Annual General Meeting	51
The Institute of Chartered Accountants of Scotland	
Summer School at St Andrews University	53
Results of May 1953 Exam- inations	55
Notes and Notices	
Personal-Professional Notes - Obituary - The Institute of Chartered Accountants in Ireland - National Insurance Benefits: Occupational Dis- ease - Double Taxation Re- lief - <i>Tax Case Reports</i> - 20,000th Issue - The Insti- tute of Cost and Works Accountants - The Institute of Actuaries - Intestate Suc- cession Tables - Accounting Hall of Fame - Return of Rates, 1953-54 - Twenty-five Years Ago - Seventy-five Years Ago - Our Contem- poraries	57

EXCHEQUER EQUALIZATION GRANT

THE introduction of the scheme of Exchequer Equalization Grant payable to County and Borough Councils by Part I of the Local Government Act, 1948, was made on the assumption that the rating revaluation, on a uniform basis for the whole of England and Wales, would be completed by April, 1952. Section 14 of the Act required the MINISTER OF HOUSING AND LOCAL GOVERNMENT to investigate the working of the grant scheme in the first year for which the new valuation would be in force, and in every subsequent fifth year.

When it became clear that the revaluation could not be completed even by April 1953 and the grant scheme had already thrown up serious anomalies, the MINISTER instituted an investigation without waiting for the new list.

The investigating committee, under the chairmanship of the ACCOUNTANT-GENERAL OF THE MINISTRY, has now reported.¹

The general effect of the grant scheme is that councils with rateable value below the average per head of 'weighted' population, have it brought up to the average, the Exchequer acting as an additional ratepayer to the extent necessary. The deferment of revaluation on a national basis means that councils which apply a low basis of valuation receive more in grants than they will when rating is uniform. The Inland Revenue supplied evidence that there were serious and widespread anomalies in the basis of assessment, not merely between one authority and another, but also between different kinds of property in the same area. However, the committee was unable to suggest any practicable method of interim adjustment on this particular account.

The committee rejected the suggestion that as an interim measure the grant be distributed on the basis of population. The report observes that this would be one certain way in which wealthy areas could assure themselves of a share.

On the other hand, although there was no present evidence that the form of the grant had induced extravagance in those councils receiving it, the committee thought that some limit was desirable in the expenditure ranking for grant. It recommended (with modifications) the method followed in the County of London.

The report recommends changes in the methods by which actual population is adjusted for the purpose of the grant, and suggests that its name be changed to 'Rateable Value Deficiency Grant'.

The investigation was without prejudice to any proposals that other forms of taxation should be made available to local authorities and, indeed, the detailed information now made public shows how anomalous and unreal the whole business of rating has become.

¹ H.M.S.O., 2s net.

THE FINANCE BILL—VII

THE REPORT STAGE

THIS week the Report stage of the Finance Bill saw a triumph for an amendment which was proposed by a back-bencher at the Committee stage, and then rejected. As reported in our issue of June 20th, MR FREDERICK LEE moved during the Committee stage that the £26 earnings limit for apprentices be increased to £85. It was increased from £13 to £26 in 1952. The ECONOMIC SECRETARY TO THE TREASURY objected that there might be circumstances where the father whose son earned £84 would receive child relief, while the father of the son who earned £86 would not, so that there would have to be provision for tapering the relief. There were tens of thousands of apprentice children and if the tapering principle were introduced it would involve the addition of 'several hundred Inland Revenue officers'. No marginal provisions are applied to the ordinary income limit for child relief and in the event the CHANCELLOR sponsored an amendment in the same terms as that proposed by MR LEE, which amendment was accepted.

When the Finance Bill was re-published as amended in Committee, it showed clause 17 shorn of the original subsection (2), but a necessary consequential amendment of what is now subsection (6) was overlooked. A Government amendment puts the matter right.

The unhappily drafted clause 19, which aims to give relief in respect of unremittable overseas profit, has given rise to further governmental second thoughts. It will be remembered that, as originally drafted, the clause required not only that the overseas income should be unremittable but also that:

- '(b) currency of that territory which a person is prevented from transferring as aforesaid has no generally recognized market value in the United Kingdom'.

One member objected during the Committee stage that these words implied that the Government were prepared to sanctify the existence of a 'grey' market in the currency of the country in question.

A Government amendment substitutes a new paragraph (b), so that clause 19 (1) now reads as follows:

'19 (1).—Where a person is chargeable to income-tax, the profits tax or the excess profits levy by reference to the amount of any profits or income arising in a territory outside the United Kingdom (hereafter in this section referred to as "overseas income"), then for the purposes of those taxes this section shall apply to the overseas income in so far as:

- (a) he is prevented from transferring the amount of the overseas income to the United Kingdom, either by the laws of that territory or any executive action of its Government or by the impossibility of obtaining foreign currency in that territory; and
- (b) he has not realized the overseas income outside that territory for a consideration in some other currency which he is not prevented from transferring to the United Kingdom.

Overseas income to which this section applies is hereafter in this section referred to as unremittable.'

Clause 19 (2) has also suffered extensive amendment and now reads as follows:

'19 (2).—Where a person chargeable as aforesaid gives written notice of his desire to be assessed in accordance with this subsection then, in the first instance, account shall not be taken of the overseas income to the extent to which he shows to the satisfaction of the Commissioners of Inland Revenue that the following conditions are satisfied with respect to it, that is to say:

- (a) that it is unremittable; and
- (b) that paragraph (a) of the foregoing subsection would continue to apply notwithstanding any reasonable endeavours on his part; and tax shall be assessed and charged on all persons and for all periods accordingly; but, on the Commissioners of Inland Revenue ceasing, as respects any part of the income, to be satisfied that the said conditions are satisfied, such additional assessments, reductions of assessments and repayments of tax shall be made as may be necessary to take account of it and of any tax payable in respect of it under the law of the territory where it arises, according to their value when, in the opinion of those Commissioners, the said conditions cease to be satisfied with respect to it, and may be so made at any time not later than six years after that date.'

This amendment tightens up the clause in that the taxpayer is required to make reasonable endeavours to induce the foreign government to release the overseas profit. It is a pity that the sub-clause was not at the same time made more intelligible.

Clause 19 (5) has been extended to read as follows, the addition being shown in italics:

'19 (5). - Subject to subsection (2) of this section, the amount of any unremittable overseas income shall be determined *by reference to the generally recognized market value in the United Kingdom (if any) or, in the absence of any such value* according to the official rate of exchange of the territory where the income arises.'

The words 'if any' presumably refer to 'market

value', not to 'United Kingdom'. The amendment represents a useful concession since official rates tend to exceed market rates.

Among rejected clauses was one for the grant of travelling expenses allowance where a taxpayer changed his place of employment. It was announced that this subject was receiving the attention of the Royal Commission on the Taxation of Profits and Income.

INHUMAN EFFICIENCY

IT is a great pity that so many of the virtues are so unglamorous, and so many of the vices so picturesque. We can all journey to our daily work, and home again in the evening, quite satisfied in our own minds that a clean (and preferably a stiff) collar is to be preferred to the soiled limpness which we associate with the artist in his studio; but our armour is not impregnable. We meet one day a rebel - a writer perhaps - and he parades as virtues all the vices, and condemns as vices all our virtues. Reluctantly, we like the fellow, and we suspect that he is much more likeable than ourselves. And we have no doubt that he thinks us smug.

All this, and the obvious preference of our fellow citizens for the romantic ne'er-do-well over our own unromantic but deserving selves, can be inferred from the way the word 'efficiency' is treated. It is a word more than usually in our minds at the moment, for many of us have lately come away from Olympia with an armful of pamphlets and a headful of facts to help us bring more of it into the businesses we are concerned with. We like the word, and we like everything it stands for, from keeping appointments promptly to having the right tool available for whatever job to be done. Yet when did anyone ever use the word with any overtone of affection? Soulless efficiency we have all heard of, even on occasion inhuman efficiency; but beautiful, or delightful, or attractive - never.

There is, of course, no possible virtue in, for example, unpunctuality; the regularly unpunctual are forgiven only to the extent that they exercise the charm which they find of less effort than self-discipline. The charm of the feckless is a lazy escape from the wrath of more efficient neighbours and has no inevitable connection with

inefficiency itself. But it is sadly true that a certain prim superiority is in much the same way naturally, but rather unjustly, associated with efficiency. We may say, if we are put to the defence of the efficient citizens with whom for the moment we are identifying ourselves, that again the primly superior are not fully efficient: for if efficiency may be defined as the maximum of production with the minimum of friction, there is required, in the individual as in the organization, humanity as well as system.

Amazed at Olympia recently, we saw great mechanical installations which produced calculations, and carbons, and ledger postings and continuous invoices. Respectfully incredulous before electronic multiplying punches, awed by 10,000 addresses an hour, we came with momentary relief to the simpler apparatus: filing systems, desk diaries, loose-leaf and tab-indexed quick reference binders. We looked, we considered, we were judicial. Then a demon of uncertainty came gnawing at our complacency: would Miss X. be any prompter or more accurate in her filing, given this lovely system? Would we ourselves be less inclined to procrastination, given this handsome desk diary? The makers would certainly answer 'Yes' to both questions, but they cannot know as well as we do the persistent idiosyncracies of Miss X. and of ourselves.

The moral would seem to be plain: efficiency, truly defined, must include humanity in itself, and must depend, in part at least, on the human operator. We said in these columns, before the exhibition, 'the first task . . . is to gauge the intrinsic capabilities of the client's employees'. We may perhaps now add to that the client himself: for in the last resort efficiency, dear Brutus, or the absence of it, is in ourselves.

THE ACCOUNTANT AND THE FARMER—II

PRODUCTION AND LAYOUT OF FARM ACCOUNTS

by R. W. SMITH, O.B.E., T.D., F.C.A.

IN the first of this series of articles the argument was advanced that the professional accountant could make a useful contribution to the economic well-being of the agricultural industry. In pursuing this argument it is first important to consider in some detail the production and layout of farm accounts and to discuss some of the accountant's problems which are peculiar to this field of activity.

A High Proportion of Small Units

We have already seen that the industry is one which includes a very high proportion of small units and ranges from the smallholder depending almost entirely on his own labour, assisted perhaps by his wife and family, to the organization which conducts its activities on a number of farms more often than not under limited liability and with the advantage of a comprehensive clerical department.

It is true to say that the majority of farming businesses are carried on by sole traders and partnerships, and that limited companies are in the minority. The public company engaged solely in agriculture is a comparative rarity. It is, therefore, not proposed to deal with auditing technique in this article, but the observations that follow apply in general equally to the limited company engaged in farming as well as to the businesses which are not incorporated. The emphasis must of necessity be on the smaller- and medium-sized units. It is also not proposed to embark on detailed instructions for book-keeping, which are outside the scope of this article.

Luxury of Clerical Assistance

Not all farmers, as we have already said, can afford to employ a full-time clerk, and the records available to the accountant will vary from an incomplete collection of vouchers, paid cheques, bank statements and paying-in books with no books of prime entry, to a complete set of books at the stage where the accountant has only to prepare from them the final statement of account. It should be emphasized, however, that it is wrong to assume that the smaller the unit the less adequate the records. Many small units will

sets of books, and the opposite will also be found among the larger organizations.

The first task of the accountant is, therefore, to do what he can to relieve the farmer with little or no clerical assistance, from his natural anxiety and prejudice over his book-keeping. Good husbandry is not achieved by sitting in an office and conducting business with a telephone and a typewriter but by constant personal supervision of every aspect of farm work. The farmer will frequently find that he has to be in several places at once to deal with problems as they arise, and his daily time-table is certain to be frequently interrupted or altered at short notice.

He has to be something of an engineer, chemist, veterinary expert and salesman as well as his own clerk. It is, therefore, only natural that he will regard his office routine as the least important of his activities, only to be undertaken when all the more pressing problems have been dealt with. It is also important to remember that week-ends, especially where livestock is involved, do not provide a break, but probably make even greater demands on his time.

The accountant who is approached by a farmer for advice must, therefore, appreciate the futility of expecting his client to keep a comprehensive set of books which he knows is beyond his resources of time and labour. It has been found from experience that the farmer with little clerical resources will be only too ready to operate a system which makes the minimum demands on his time.

Minimum Book-keeping Requirement

This minimum requirement need be no more than the preparation of a weekly record sheet of receipts and payments with separate columns for bank and cash transactions. This sheet is maintained in the form of a duplicate-book with the top copy detachable. The top copies with the relative vouchers attached are forwarded to the accountant at appropriate intervals—that is, anything from weekly to quarterly as the need arises—and at suitable times cheque-books, paying-in books, bank statements and other supporting documents are supplied to the

From this material the accountant can maintain the permanent financial records of the farm, while the farmer can keep his own continuous record of income and expenditure on the bottom copies retained in the duplicate book. The book can be so arranged to include fifty-two weekly periods, so that each volume contains the epitomized results of a year's trading.

The time involved each week in making the necessary entries is only a matter of a few minutes and the record need only be in a rough and ready state, for it is merely the raw material from which the accountant will produce the finished article.

The best time for the preparation of the weekly sheet is when the farmer is making up his wages and dealing with P.A.Y.E., national insurance and other similar matters of weekly routine—such items will, more often than not, be the subject of entry on the sheet.

Vouchers and other documents are returned to the farmer as each weekly sheet is cleared in the accountant's office.

The Accountant's Dissection of Information

Apart from the advantages to the farmer, it will become obvious that there are great benefits for the accountant. It will be up to the accountant to decide exactly how this raw material is to be used by him, but in the main his problem is largely one of how the information is to be dissected best to suit the requirements of the particular business. He will of course require information concerning debtors, creditors and stocks at fixed periods, but this again must be a matter of arrangement to suit individual requirements. It is quite obviously unnecessary to maintain an elaborate system of ledgers, journals and day-books—a master dissection book kept in the accountant's office will provide most of the information that is required. The great advantage from the accountant's point of view is that he can spread almost the whole work of detailed checking, vouching, and dissecting throughout the year leaving only the assembly of the final figures to be dealt with at the balancing date. Almost as important is the facility with which queries can be disposed of as they arise while the knowledge of them is still fresh in the mind of the client.

Other less obvious advantages include the opportunity for giving the client advice on financial policy without waiting until the end of his year; the examination of vouchers before they are lost or mislaid, and in this connection the opportunity of rectifying errors in salesmen's

and suppliers' accounts before they have had time to be overlooked or forgotten.

This system of making the prime entries has been found to operate quite satisfactorily in farms of the larger class but it is stressed that its greatest advantage is with the smaller and more numerous unit. Quite obviously if the farmer concerned is one which does maintain adequate records of its own, the accountant's task is confined to the more normal procedure.

Terminal Date for the Accounts

Having settled the mechanics of the book-keeping, perhaps the next important problem is the choice of a terminal date for the accounts. Here again it is possible to make considerable economies in time and costs by making a wise selection. The considerations to be borne in mind are similar in many respects to the choice of a stock-taking date for a manufacturing or commercial enterprise, but they have more far-reaching complications.

The traditional date for the termination of the farmers' year is at Michaelmas, after harvesting has been completed and the results of the year's husbandry can be measured. In fact, in some parts of the country tradition is so strong in this respect that the terminal date is still taken as the 'old' Michaelmas on October 11th.

From the standpoint of the accountant there are disadvantages in a Michaelmas account. The harvest will have been gathered, but most of it will remain unsold and valuation will, therefore, be more difficult than at a time when stocks are low. It will also be a time when outstanding accounts owing to suppliers are pretty well at their peak for the year. On the other hand, work will scarcely have started on preparations for the next season and the value of labour and stores expended on the land will be relatively small. Under modern methods, particularly with fruit and many types of roots, the harvest will be far from complete at Michaelmas and in such circumstances an accurate terminal valuation becomes almost impossible.

For the same reason a terminal date anywhere between midsummer and Michaelmas is unsatisfactory, and is likely to be unpopular with the farmer as it is generally a time of the year when he will find little opportunity for discussing accounts, and the problems arising from them. There is another disadvantage in taking a terminal date during this period. A late season in one year followed by an early season in the can easily produce double revenue from one

of crop within a period of twelve months and if the conditions are then reversed, the succeeding year will have no such revenue. Quite apart from any other consideration the results of such a succession of events for taxation might well prove to be disastrous. It is also important to avoid annual stock-taking at a time when livestock is producing progeny. Specialist farms may require special consideration, one obvious example being hops, but, as I have said, the intention is to deal as far as possible with general mixed farming.

Best Time for an Annual Valuation

The best time for an annual valuation is between December and the end of March, the latter date having found considerable favour as a matter of convenience in the change over from the Schedule B to Schedule D basis of assessment. The main advantages of this time of the year to the farmer are that harvesting has been completed and with few exceptions crops are either stored or sold. The old season's sales have been paid to the farmer and he has cleared his suppliers' accounts. Work on the new season is not far advanced and stores are not unduly large.

On the other hand, from the accountant's point of view, December 31st and March 31st are times of peak activity and he would sooner spread out his work over the rest of the year. The effect of this disadvantage is mitigated to a large extent by the procedure already described for dealing with the book-keeping on a current basis throughout the year.

Importance of Purposes of the Accounts

Before dealing in detail with the form of layout of the farmer's annual accounts, it is perhaps necessary to assess the relative importance of the purposes which these accounts are to serve. In the first of these articles considerable stress was laid on the developments over the last fifteen years, which have prompted the preparation of farm accounts largely with taxation in mind, and the view was expressed that this consideration should be made subordinate to the proper use of accounts in connection with the efficient management of the business itself.

There is no doubt that if accounts are to perform their true function this must be their real purpose, and the main theme of these articles is to show both the accountant and the farmer that a proper partnership between them can lead to improved results both for the individual and the industry as a whole.

If the accounts are to assist the farmer in

revealing causes of loss, wastage, inefficiency and extravagant methods, then it is idle to suggest that these accounts are prepared primarily for the purpose of agreeing income-tax assessments. Whatever may be the practical effect, taxation is not in itself an item of cost: if it were, we should have to explain the paradox that the more efficient the business the greater the liability to taxation.

The other major purposes for which these accounts will be required are for statistics in connection with marketing schemes and price reviews and in many cases for inspection by would-be lenders—especially banks. The presentation of accounts to shareholders in a farm company is of course in the same category as the primary purpose referred to above in connection with the individual. It would perhaps be fair today to say that the requirements of the bank and the Inspector of Taxes take a subordinate place to the other purposes, or at any rate they should do.

There are other less important purposes served by the accounts but it is not the present intention to dwell on these.

The accountant's aim is to present a true and fair picture of the results and if he succeeds in this endeavour, it will be reasonable to suggest that his product is not biased for or against any of the purposes for which the accounts will be used.

Annual Stock-taking Valuation

The annual stock-taking valuation is such a vital element in the preparation of the annual accounts that it is as well to consider this in detail before going on to deal with the layout of the accounts.

Many farmers, for reasons of economy, prepare their own annual valuation for stock-taking purposes. This can lead to a natural and to some extent irresistible tendency to fit the valuation to the circumstances existing at the time. Experience shows that the preparation of the annual valuation for the purpose of terminal accounts is a highly skilled process and one which is best left to the qualified agricultural valuer. There is a degree of co-operation now existing between accountants and valuers which enables each to provide the proper complement to the work of the other.

At the same time there is every evidence of a growing respect among the professions for the skill and experience of specialists. It is hoped that we shall soon see the disappearance of that jack of all trades who is accountant, valuer, insurance broker etc. all in one, but who has achieved neither competence nor dependability in any. There is on the part of the farmer a tendency

to think that he may be paying unnecessary fees by employing both an accountant and a valuer but the justification must appear in the results. Nevertheless, there are ways in which economies may be achieved: for example, if the valuation is made each year for stock-taking purposes it is unnecessary to include details of dead stock. The accounts will show these at cost less amounts written off for annual depreciation, and the written-down value for taxation purposes will be arrived at by the normal process. Quite obviously the valuation of plant and equipment for special purposes may well lead to different results. In preparing the annual figures the accountant is only concerned with the charge for depreciation and the provision for replacement. The valuer may be concerned with values for insurance, a change of tenancy, partnership dissolution and many other reasons which produce a different result from that shown in the annual accounts.

There is, however, less latitude in the other items going to make up the annual valuation. General principles of stock-taking valuations will apply. The various items will be broken down into the following main groups or local variations of them.

- Livestock (classified).
- Crops harvested and in store.
- Growing crops and cultivations.
- Hay, straw and silage.
- Labour to land.
- Manures applied.
- Manures on hand.
- Other stores.

It is a matter for individual choice how these headings are to be subdivided. It will depend partly on the size of the business and the extent of the valuation and also the information that will be wanted if detailed costings are contemplated. It is interesting to note that valuation procedure varies in different parts of the country; for example, wirework is in some places treated as part of the tenant-right, while in others it is included with the freehold. Similar distinctions apply to bush-fruit and nursery stock. What is important is that this annual valuation should be as accurately taken as possible, otherwise all the efforts of the accountant to produce figures which can be of real use and benefit will be worthless. When it is considered that the valuation on a medium-sized farm without any special features such as pedigree stock, even at a quiet period of the year, may amount to anything between £5,000 and £10,000, the importance of accurate assessment cannot be over emphasized.

Form of Accounts

We have so far considered all the requirements up to the preparation of the annual accounts themselves. It is now necessary to study the form which these accounts are to take. It is a frequent comment that the only person who understands the contents of a set of accounts is the architect of their construction. There is every justification for making the accounts which are prepared for the small unit as simple and as readily understood as possible.

The client will almost invariably regard the profit and loss account as a more important document than the balance sheet – this is because he understands what the profit and loss account is intended to tell him, but the purpose of the balance sheet remains wrapped in mystery. He will seldom understand that the two documents are complementary to each other, and it is quite useless to prepare accounts in conventional form and to expect them to be informative to the average small farmer without considerable simplification and explanation. It should be explained from the start just exactly what information the profit and loss account (or farm account) is intended to convey and what are its limitations.

It is important to give the client a clear picture of the difference between capital and revenue expenditure. Many of the so-called systems of accountancy for agriculture fail at the outset by bringing capital assets in the form of dead stock into the opening and closing valuation in the farm account.

It is equally important to give proper emphasis to the balance sheet. The accountant is so familiar with this document that he is often inclined to overlook the meaning which it has for the layman. The latter, especially if he is unfamiliar with accountancy, must be given the facility of seeing the balance sheet as a statement of capital and surpluses invested in a business and showing in detail, which is adequate to the occasion, in what way the investment has been made. All this is of course quite obviously the function of accounts in relation to any business, but it is surprising how often these factors are forgotten and the client is misled or confused by unnecessarily complicated details.

The Farm Account

To deal more particularly with the farming aspect, let us consider first the profit and loss account. I prefer to call this the farm account and so avoid confusion with the trading and profit and loss account associated with the trading or

manufacturing business. This distinction is important because the aspect of a trading account with its generally accepted notion of gross profit has no real significance in connection with farm accounts. It is of some importance to separate the main items of prime cost and indeed this is a very desirable feature, but there is seldom any point in establishing any very definite ratio of prime costs to selling price or to turnover.

In a business where the producer has little or no control over the selling prices, and where the volume and quality of goods produced are subject to variation from causes which are to some extent beyond his control, the rate of gross profit ceases to have a great significance in relation to the turnover in terms of money's worth – this is not to say that there is not an important relationship with the volume of output – but for the moment we are considering purely the financial aspect of profit and loss in broad terms. What is more important is to group income and expenditure in a logical sequence that will form the basis of information which the farmer will require from his accounts, and which can be used to build up detailed costings if these are required.

The first essential is to dissect the income into its main groups: livestock, dairy, cereal, roots, vegetables, fruit, with further subdivisions to suit the needs of the particular case. If there are any specialist crops of any consequence it is as well to show these separately as they may have a direct bearing on certain items of expenditure, and the farmer who is a specialist will require full details of such revenue.

There will be many miscellaneous items of revenue requiring separate treatment. These are too numerous to discuss in detail in a short article, but the most common are cottage rents, subsidies of various kinds, bonuses from packing stations, compensation for crops damaged or on land requisitioned, way-leaves, and receipts from sub-contracting.

Annual Stock-taking Valuation in the Farm Account

We have already seen how the annual stock-taking valuation is to be divided. It is a matter of some divergence of view as to how this is to be incorporated in the farm account. It can either be shown as a separate feature as opening and closing stock, or adjustment can be made to the farm account debits and credits to give effect to the opening and closing valuations and to show net figures of consumption and production. There

is of course no difference in the resulting balance on the account and the policy must be governed by the requirements of the farmer.

An obvious case where care must be exercised that misleading conclusions are not drawn can be seen in an account terminating at March 31st where there is a considerable acreage of potatoes. Seed may be purchased for one season in early April and for the next in the following March. In the next year the delivery may again be in April. The effect is to charge double purchases of seed in the first financial year and none at all in the second. Without adjusting the stocktaking figures and purchases to show annual consumption, a most misleading picture is presented.

Where the financial accounts are to be used to produce costings, the adjustment must be made. On the other hand, the requirements of the client may be merely for details of actual expenditure within a given period. It is, nevertheless, most important that there should be co-ordination between the accountant and the valuer to avoid the inclusion of stores in a closing valuation, which are delivered but not charged for in the accounts, or the reverse situation where, for example, a consignment of fertilizer has been invoiced and included in sundry creditors but has not been delivered at the accounting date and is, therefore, not included in the valuation.

It may be thought that errors such as these are obvious and could be easily avoided but it must be appreciated that the farming business does not necessarily have the documentation and other safeguards which the commercial business would employ to prevent this situation arising. There is also no yardstick of gross profit percentage which would throw up this type of error into relief.

Dissection of Expenses

The main items of direct expense will follow the same kind of sequence as the sales of produce: livestock purchased, fodder, seeds and plants, fertilizers, washes and insecticides, packing materials. These should be followed immediately by the charge for labour. In a small business one total will suffice, but in larger ones some dissection may be justified to show general farm labour, non-productive labour, contract labour for threshing, baling, ploughing etc. This completes the expenses capable of direct allocation except in certain special cases.

Then follow the items of indirect expense and overheads and the most suitable sequence for general use and allocation would be something like this under these broad headings.

Maintenance and Repairs

Buildings and farm property.
Implements, machinery and loose tools.

Rolling-stock expenses (tractors and vehicles)

Maintenance and repairs.
Running expenses and fuel.
Standing charges and insurance and tax.
Hired haulage and carriage.

Establishment charges

Rent.
Rates and water.
Tithe.
Lighting and heating.
Insurance.
Telephone.

General charges

Professional fees.
Veterinary services and medicines.
Stationery and postage.
Advertising.
Marketing expenses.
Travelling and show expenses.

and finally such items as interest, depreciation, losses on sales of plant, legal expenses and so forth.

Personal Labour and Interest on Capital

Before striking the resulting balance of profit or loss it is as well to consider if some appropriation should be made for personal labour of individual or partners, and interest on capital. It is not long since a government report on farm incomes was published, which took into account neither of these factors. Farming requires more capital in relation to its output than almost any other industry; it also demands from the individual proprietor more intense and prolonged personal labour. It is, therefore, wrong to ignore either of these factors and the accountant who is acting for a farmer client does a service in taking account of them. Even if not actually included as a charge in the farm account it is a point worthy of serious comment in any accompanying report. If these factors were always taken into consideration we should hear far less about the easy money that is to be made from agriculture.

These features are particularly important when it is considered, as has been remarked elsewhere in the course of this series, that the farming industry includes a very large number of small units, many of which are only capable of providing a very modest living for a working proprietor. The pressure that is now being exerted for a further substantial rise in the minimum wage rate will, if successful, seriously reduce the margin of profit, unless there are other compensating factors. Among the smallest units it is by no

means uncommon to find that after allowing for interest on capital and personal labour the proprietor is left with a net income that is not much more, and often less than that of an agricultural worker. Many such farmers do not appreciate this fact unless it is demonstrated to them; on the other hand, there are those who although fully aware of this, continue with a sense of stolid independence, until forced by financial stringency to take measures to retrieve the situation, more often than not too late to provide a remedy.

It is perhaps going too far to suggest that a proper understanding of the economics of agriculture can always avert such a situation, but there must be many cases where advice given at the right time may result in avoiding further deterioration. Such problems generally result from farming an unbalanced or uneconomic unit. The remedies may be found in incorporation with other units or even by a reduction in size to shed the uneconomic portion. The important point is that diagnosis is often made more certain by the use of accurate accounts.

The Balance Sheet

The farmer's balance sheet needs only to be a very simple affair. In this respect the slavish imitation of the form and detail required by the Companies Act has produced nothing but mystification for the farmer and indeed to many a small trader running a 'one-man' business. Let us remember that the farmer's accounts are not for presentation to an annual meeting of shareholders, and let us also note that a farm does not change hands on the record of its financial achievements.

In many years experience of this subject, an example has yet to be met of a farm having the goodwill in its accounts or having the balance sheet and farm account produced as a basis of agreeing a price for the sale of the farm. All that is required, therefore, is a simple statement of the assets less the liabilities grouped in any form that suits the type and size of the particular business, and showing as the balancing figure the personal capital which is invested in the business. This last feature is the most important from the farmer's point of view - he will wish to know how his capital has grown or diminished during the year, so that it is desirable to show this in some detail, tracing the year's transactions from the opening balance and showing the credits from introduction of fresh capital, surpluses on realization of fixed assets, and profits. And deducting the itemized debits for personal drawings, withdrawal of capital and losses.

(To be continued.)

WORKS PLANNING AND COST CONTROL IN THE CAR AND SHEET METAL INDUSTRIES

by H. H. NORCROSS, F.C.W.A.

Introduction

EFFICIENT planning and cost control are important in undertakings of all types and sizes. They are important to the small garage which does a little sheet metal work, to the jobbing factory in the sheet metal industry which employs several hundred workers, and to the motor-car factory which has ten to twenty thousand employees.

They each want a layout which will facilitate efficient production; they each want to organize a smooth flow of work, and they each want to produce economically. But the methods to be used are different. The owner of the small garage devotes only a part of his own time to these problems and he uses little or no 'paper-work'. The jobbing factory with five hundred or more workers finds it profitable to use much more advanced methods of planning and control.

But it is in the motor-car industry that the problems of works planning and cost control are most acute and so it is there that we find some of the most interesting planning and cost control techniques. Consideration of these techniques should be based on consideration of the problems of policy formation. In a car factory some of the policy matters which have to be discussed and settled at high level are:

What type of car shall we produce?

At what volume of production and sales shall we aim?

How many different models of car shall we produce?

Unless policy decisions on these major matters are sound it is impossible to achieve real success. When these major decisions have been taken, a co-ordinated effort should be made in the fields of product design, production methods, administration and selling, with a view to achieving the objectives set by the policy decisions.

Factory Layout for Line Production

In a mass production car assembly plant it is customary to employ a staff of specialist planning engineers to deal with problems of factory layout. The policy of the company will have decided the level of output for which the planning staff must provide. The planning staff consider the design of the product and the desired level of output and then decide on the production methods. These in turn lead to an assess-

ment of the plant required, operation by operation. Layout and production methods are considered right from the point where initial plans are being made for the design of a new car and designs are carefully 'groomed' to permit economical manufacture.

Where possible, factory buildings are designed specifically for their job and arranged so as to take floor conveyors and overhead conveyors. The plant and the conveyors are laid out in the buildings so as to facilitate a smooth and steady flow of production. To equip a mass production motor-car assembly plant involves heavy capital investment in tools and equipment and it requires a relatively long run of production to recover that expenditure.

When a new model comes into production the layout is changed in order to fit the production needs of the new model and the new layout is planned in minute detail in advance of the change-over.

Line production, whether in the car industry or elsewhere, has a very important influence on the economics of a factory. Some of the advantages are easily seen; others, whilst not so obvious, are nevertheless of great importance.

Good layout reduces handling costs and simplifies many aspects of the control of production and so brings important economies in the cost of works clerical routines; it also paves the way for that smooth and steady flow of a high volume of production which is essential if overhead costs per article are to be kept down. Again, it facilitates that rapidity of flow which helps greatly to reduce the amount of finance tied up in idle work in progress.

It is, perhaps, not as widely realized as it should be that industry in this country is seriously short of finance, and that to tie up finance in an unnecessary volume of stock and work in progress is to waste money which could be used to better advantage. The volume of stock and work in progress in a business can be expressed in terms of the number of month's supply.

In a business which uses £3 million worth of material a month, then £9 million stock and work in progress represents three months' usage; £6 million represents two months, and so on. In such a business a reduction of stock and work in progress by the equivalent of one month's usage would release £3 million for other purposes. At 5 per cent, which is not an excessive rate of interest for these days, this means a saving of £150,000 a year.

Line Production in the Small Business

Although it is in the car assembly plants that we find some of the most spectacular examples of line

production, the basic principles can be applied in many circumstances. It has been my experience that even in relatively small undertakings, in the sheet metal industry and elsewhere, line production can ease the financing problems of a business and can pay handsome dividends in the form of reductions in cost and increases in the volume of output.

To apply the principles of line production does not necessarily involve heavy capital investment; nor does it necessarily involve large numbers of men and machines.

I well remember a small but very effective production unit which was producing metal bodies for cameras. The operations involved were presswork and welding, and there were about four machines arranged compactly in a circle. The movement of the camera bodies from the first machine to the second was done by the operator sending the camera body down a simple chute to the next machine; the second operator did the same in order to pass the camera body on to the third operator and the last operator in the chain sent the completed camera bodies down a chute into a waiting truck.

In this, and in many other similar examples, the benefits of flow production are being obtained in relatively small production units. The same fundamental attitude of mind lies behind the production of camera bodies and the production of motor-cars. That attitude of mind could and should be applied to many other production problems in this country.

Factory Layout for Jobbing Production

But there are still many factories where flow production methods can be applied to only a small part of their work. Much of the jobbing work in the sheet metal industry is of this type and even some of the largest companies in the sheet metal industry are primarily large jobbing shops.

The demand for their products varies and they must face conditions where the sales of one product may fall off and production of another product must be developed to take up the spare production capacity. In these circumstances fork-lift trucks may be a better approach to the problems of factory layout and material handling than conveyors of the type used in the motor-car industry. If this is so, then the layout of the whole factory should provide for the use of fork-lift trucks.

A superficial examination of the problems of using fork-lift trucks is not likely to yield the best results and it may be necessary to investigate matters which at first sight appear to have little to do with these problems. The gangways and the doors of the factory must be wide enough to take loaded trucks and the floors should all be on one level in so far as this is practicable. Pallets should be designed to facilitate the use of the trucks. To achieve the best results, co-ordination may be necessary with suppliers and also with customers so that raw materials can be received on the pallets and finished goods also despatched on the pallets.

In a large jobbing shop of this kind trucks have advantages over mechanical conveyors because of their flexibility. If trucks are used, one product can be taken out of production and another put into its place without a radical change of layout of the type which is necessary in a motor-car factory when one model replaces another.

Production Control in a Car Factory

The purpose of a production control department is to so organize a smooth flow of material and work as to make the best use of the factory layout.

In a car factory the plant is balanced to meet the output for which the factory has been laid out. A factory intended to produce 2,000 cars in a 40-hour week should produce at the rate of 50 cars an hour. Fluctuations in production requirements can be met by increasing or decreasing the length of the working week. A 36-hour week should produce 1,800 cars and a 44-hour week 2,200.

The sales department and the production control department keep in close touch and they prepare programmes of the required output of finished vehicles. Firm production programmes are normally fixed for one month ahead and tentative programmes for a further two months, making a total of three months in all. New programmes are set each month. Some time in January, firm programmes are set for February and tentative programmes for March and April. In February, firm programmes will be set for March and tentative programmes for April and May and so on.

The production control department computes from these programmes of completed vehicles the material required and the work to be done in each section of the factory.

Flow of Material and Components

In planning the flow of material and components, careful attention should be paid to variations from item to item in the time required for production. Hub caps can be one of the last items put on the car and so the hub caps need arrive at the factory only a short time before the despatch of the cars on which they are to be fitted.

On the other hand a crankshaft goes through a number of machining and heat-treatment processes and it is then assembled into an engine; the engine in turn is assembled into the complete car. The rough crankshaft should therefore be planned to arrive at the factory in sufficient time to allow for this work to be done. For each item in a car is set a time factor: this is the time which it is planned should elapse between the receipt of that item in the works and the despatch of the complete car in which that item is assembled.

Specifications of the vehicles show the components from which they are built and the production control department applies the specifications to the programme of complete vehicles and explodes that programme into terms of the components required. For

each component the planned production time cycle is brought into account and thus are built up programmes of the desired input of raw material and bought out finished components. These form the basis for the issue to suppliers of schedules of required deliveries.

The production control department keeps in close touch with the movement of material and the rate of production and ensures that action is taken to deal with any potential trouble spots. The objective of the production control department is to give as early notice as possible of a potential hold-up in production, so that adequate time is available to take corrective action.

Stoppage

It is important to appreciate that the whole of a motor-car factory can be stopped for the lack of one component, even if that component is a relatively small one. A stoppage of such a highly specialized production plant is very expensive.

It is the duty of the production control department to ensure that production does not stop due to a failure of supplies. On the other hand, the general policy of the mass production motor industry is not to hold heavy stocks but to organize the flow of material from suppliers so that it arrives shortly before it is required for use. This policy enables substantial economies to be made in the investment required in stocks and work in progress and in the space required for storage.

The production control department is therefore operating between narrow limits; on the one hand there is the risk of a hold-up in production if supplies are late and on the other hand excessive stocks pile up if supplies are too early.

A car factory does not keep stock records in the usually accepted sense of the term and it eliminates most of the costs of the type incurred in other businesses in respect of the handling and recording of stock. Nor does the car factory have to keep records of machine loading because this problem is met at the time when the factory layout is planned. The plant is balanced for the programme which it is to undertake.

Control of Jobbing Production

In a jobbing factory, whether that factory undertakes jobbing in the sheet metal industry or in other industries, the problems are very different. The plant and layout are selected for their flexibility and it is difficult in a jobbing organization to keep a high level of sales in a suitable assortment which will ensure a steady and balanced load on all the plant. Unless the situation is very carefully watched the order book gets out of balance with the plant capacity and certain machines have more work ahead of them than they can cope with, whereas other machines are under-loaded.

In view of this, it is desirable in most jobbing factories to keep some form of machine loading

records. These records will show the load ahead on individual machines or on groups of machines. They may reveal the need for a change in sales emphasis so as to sell more products of the type on which the forward machine load is light and less products of the type where the forward machine load is heavy. These records may show that overtime may have to be worked in order to balance production with sales, and this overtime may be necessary merely on certain machines or on certain groups of machines.

These records will enable management to forecast the need for an increase or decrease in the labour force or the need to put work out to sub-contractors. Again, the records together with a long-term forecast of sales will be a basis for considering whether more plant should be bought.

A word of warning is necessary about machine loading records. Unless they are accurate and up to date they can be not only useless but worse than useless because they may lead to faulty management action.

In some cases load records are desirable for individual machines but the installation and operation of an effective system on this basis can sometimes be a very tricky business. It is often better to keep load records merely by groups of machines as this involves fewer clerical complications.

In a jobbing factory which has a fluctuating load of work and where the demand cannot be accurately forecasted, conditions are very different from those in a mass production car plant. It is generally necessary to hold stocks and to keep stock records. The records may show simply, receipts and issues and the quantity in stock. Alternatively the records may also show 'due in' (i.e. the material on order not yet received), and 'due out' (i.e. the material allocated for future production requirements but not yet physically issued).

Cost Control

Different factories have different problems and so a cost control system should be 'tailor made' to suit the special conditions of the factory for which it is designed. The system which works best in a jobbing factory cannot be applied, with success, in a motor-car factory and vice versa. But behind all good modern cost systems there is a strong emphasis on the need to supply to management, at all levels from managing director to foreman, the figures and the advice which will help them to control costs.

I will illustrate this approach to cost control by giving a broad outline of some of the costing and budgetary control methods used in an efficient motor-car factory. Although different systems are needed in jobbing factories the objectives of those systems should be the same; to act as aids to management and to place more emphasis on cost control than on attempts to make precise measurements of cost on a historical basis.

In a car factory the control of costs centres around the annual budget. The budget consists of a number

of schedules but the heart of it is a budgeted profit statement which takes somewhat the following lines.

shows the budgeted expenditure on direct labour. Process sheets prepared by the process planning

Model and number of cars	Model 'A' 100,000		Model 'B' 10,000		Total 110,000
	per car £	per annum £	per car £	per annum £	£
1. Sales	400	40,000,000	600	6,000,000	46,000,000
2. Direct material costs	300	30,000,000	350	3,500,000	33,500,000
3. Direct labour costs	20	2,000,000	50	500,000	2,500,000
4. Gross margin (1-2-3)	80	8,000,000	200	2,000,000	10,000,000
5. Overheads					7,500,000
6. Profit					£2,500,000

Preparing the Budget

The whole of this budget is based on a forecast that in the coming financial year the company will make and sell 110,000 cars of which 100,000 will be model 'A' and 10,000 model 'B'. Before this basis for the budget is decided upon many matters are considered. Reports from distributors and agents at home and overseas are carefully scrutinized by people with experienced judgment.

General economic circumstances are considered and opinions formed as to the probable effect of competition from other manufacturers at home and abroad. Plant capacity is assessed and forecasts are made of the availability of material and labour. In the light of all this information the company fixes a target of the number of cars it plans to make and sell in the year. From this is computed the money value of the budgeted sales.

Second Line of Profit Budget

The second line of the profit budget for the year shows the budgeted expenditure on direct materials. For a number of the materials used in a car the buying department may have placed forward contracts in an attempt to get the price stabilized for at least a year ahead.

For materials where this has not been done the buying department is asked to make a forecast of the price at which it anticipates those materials will be bought in the coming financial year.

These contract prices and forecast prices are applied to the specification of the vehicle which has been prepared by the designs office. This specification shows the amount of raw material and bought out finished items used in the production of one car. Thus is prepared a forecast of the material cost of that model. Similar forecasts are made of the material cost of other models, and these material cost figures are applied to the budgeted volume of production and sales to arrive at budgeted figures for expenditure on direct materials.

The third line on the budgeted profit schedule

department show the work to be done in the production of each car: in the manufacture of components, in sub-assembly and in final assembly. For each of the operations necessary to produce the complete car, a standard labour cost is set; this is a forecast of what the labour cost will be.

If the workers are paid on a piecework system this forecast of labour cost will be based on the piecework prices where they have been fixed. Where the piecework prices have not been fixed, carefully prepared estimates are used. These standard labour costs are summarized to give the standard labour cost of the complete vehicle, and standard labour costs of this type are computed for each of the models to be produced.

These standard labour costs are applied to the budgeted production figures and the result is a budget of the expenditure on direct labour for the year.

Overhead Budgets

The fifth line of the profit budget shows overheads, and this item is based on detailed schedules giving the budgeted overhead expenditure for each department in the company. The prime responsibility for these departmental overhead budgets rests with the people responsible for the management of those departments. But the financial controller and his subordinates are available to give advice on the preparation of the budgets, and the final approval of the whole budget plan will rest with the managing director of the company. The budget for one of the machine shops may be somewhat as follows:

Overhead Budget - No. 1 Machine Shop

Activity	80%	90%	100%	110%	120%
Foremen ..					
Labourers ..					
Consumable materials etc., etc.					
	87,000	93,000	100,000	106,000	114,000

It will be appreciated that the actual level of production may be above or below the budget level. It is not enough, therefore, to set merely a fixed annual budget for overheads; it is necessary for the budget to be on a flexible basis so that overhead budgets are set in advance for possible variations in the level of activity.

In the example given above, the budget shows the allowable expense for levels of activity varying from 80 to 120 per cent of the level of activity on which the whole budget plan was based. It will be seen that at 100 per cent activity (i.e. a rate of production equivalent to an annual output of 100,000 cars of model 'A' and 10,000 cars of model 'B') the allowable expense for the Number 1 Machine Shop is £100,000, whereas if actual output is 10 per cent above the budgeted output, the allowance would be £106,000.

Some of the overhead items (e.g. foremen's salaries) will tend to be substantially the same irrespective of changes in the volume of output, whereas other items (e.g. consumable materials) will tend to vary as output rises or falls. Each item of overheads will be considered on its merits and a flexible budget set accordingly.

Overhead budgets will be set in similar fashion for all the other production and production-service departments, and these budgets will then be summarized somewhat as follows:

Overhead Budget Summary - Production Director

Production Departments					£
No. 1 machine shop	..	..	..	..	100,000
No. 2 machine shop	..	..	..	..	1,200,000
Press shop	..	..	..	..	600,000
Engine and gearbox sub-assembly	..	..	..	..	800,000
Final assembly	..	..	..	..	400,000
Production Services					
Maintenance	..	..	..	..	300,000
Production control and stores	..	..	..	..	200,000
Planning and rate-fixing	..	..	..	..	100,000
Inspection	..	..	..	..	300,000
					<u>£4,000,000</u>

A similar procedure is followed in preparing overhead budgets for the administration, sales, design and development functions of the business, and a master summary is then prepared somewhat as follows:

Master Summary of Overhead Budgets					£
Production	..	..	..	..	4,000,000
Administration and Finance	..	..	..	..	1,000,000
Sales	..	..	..	..	1,500,000
Design and Development	..	..	..	..	1,000,000
					<u>£7,500,000</u>

Cost Control Reports

When the whole budget has been set, then the various departments of the business make a co-ordinated effort to carry their plans into operation, and the accounting department issues reports from time to time showing each department how it is progressing in the comparison between actual performance and the budget.

Actual purchase prices of materials are compared with forecasted purchase prices, and the buying department is shown the effect of variations in buying prices.

Similarly, the rate-fixing department is shown how actual labour costs are comparing with budgeted labour costs and all the departments are told how their actual overheads compare with budgeted overheads. The overhead statement for the Number 1 Machine Shop would be somewhat as follows:

No. 1 Machine Shop

Overhead statement for four weeks ended.....
Activity 90 per cent.

	Basic budget	Adjusted budget	Actual expenditure	+ or -
	£	£	£	£
Foremen				
Labourers				
Consumable Materials				
etc., etc.				
	£8,000	£7,440	£7,900	+ £460

This statement shows that for four weeks the allowable expense for Number 1 Machine Shop would have been £8,000 if the activity had been on the budgeted level. In fact, actual activity was 90 per cent of budgeted level and at 90 per cent activity the adjusted budget amounts to £7,440. Actual expenditure was £7,900 showing an excess expenditure of £460. The statement would show where the excess expenditure had arisen item by item.

Conclusion

Works planning is not merely the preparation of good layout drawings and production programmes by a competent planning staff; nor is good cost control merely a matter of good systems in the cost department.

The most important aspects of works planning and cost control lie deeper than that and they depend primarily on the attitude of mind with which everyone in the business approaches his work. The best results are obtained only under a managing director who has the right general approach to his task and selects and develops his subordinates with care and ensures that the work of all departments is co-ordinated. The techniques of works planning and cost control are merely the logical outcome of such an attitude of mind.

WEEKLY NOTES

The Council of the Institute

Mr Redvers Boulton Leech, M.B.E., T.D., F.C.A., of Coventry, senior partner in the firm of Leech, Evans & Co, was elected a member of the Council of The Institute of Chartered Accountants in England and Wales at the meeting held last Wednesday.

Incorporated Accountant Knighted

Mr Arthur E. Middleton, J.P., F.S.A.A., Chairman of the London County Council, was knighted by the Queen at a reception at County Hall last Monday.

The Institute's Summer Course

The seventh summer course of The Institute of Chartered Accountants in England and Wales assembled yesterday at Christ Church, Oxford, and will continue until after lunch next Wednesday. The papers being presented and the names of speakers are as follows:

'Some problems of the chartered accountant in practice', by Mr W. L. Barrows, F.C.A. (Howard Smith, Thompson & Co, Birmingham).

'The chartered accountant in industry', by Mr J. Clayton, A.C.A. (Director, Broadcast Relay Service, Ltd).

'Taxation, other than taxation on income', by Mr P. F. Carpenter, F.C.A. (W. B. Keen & Co, London).

'Organization and activities of the accounting profession in the United States', by Mr John L. Carey (Executive Director, American Institute of Accountants).

The course has been divided into eight discussion groups of about twenty members, for the purpose of discussion after each address and at any time during the course when a group may wish to meet. Each afternoon is being left free for members to use as they please, and there will be the opportunity to visit Blenheim Palace, the works of Morris Motors Ltd, places of interest in Oxford, or making a tour of the Cotswold Hills; there will also be a golf competition at Frilford Heath Golf Club. On Tuesday evening, Mr James Blakey, F.C.A., President of the Institute, will preside at a guest night dinner in Hall.

We hope to include a report of the proceedings and a photograph of some of the personalities attending the course in an early issue, and subsequently to reproduce the papers being presented.

The Scottish Institute's Examinations

The results of the May 1953 examinations of The Institute of Chartered Accountants of Scotland have now been announced. There were 151 successful candidates in the Final examination, while in the Intermediate 118 candidates passed; these results are 65 more and 14 less, respectively, than those announced for the December 1952 examinations.

The Albert J. Watson Prize, for the candidate who obtains the highest percentage of marks above a certain minimum at each diet of the first division of the Final examination and who complies with certain other conditions was won by Mr Robert Christie Liddle, of Glasgow; while the Sir William McLintock Prize, which is in two parts, for the candidates who obtain the highest and second highest percentages of marks above a certain minimum and who comply with certain other conditions, was awarded to Mr Gordon MacDonald Milne, of Dundee, and Mr Robert James Jamieson, of Edinburgh.

The names of successful candidates in the Final and Intermediate examinations appear elsewhere in this issue.

Monopolies and Restrictive Practices Commission Bill

The Government have introduced into Parliament a Monopolies and Restrictive Practices Commission Bill, which received its first reading in the House of Commons on July 1st. The purpose of this Bill is to strengthen the Monopolies Commission and enable them to deal at any one time with a greater number of references. To this end three principal changes are made.

First, the chairmanship of the Commission becomes a long-term pensionable appointment, and the Board of Trade is empowered to appoint up to two deputy chairmen - also on a long-term pensionable basis. The normal minimum age for retirement will be 65; retirement will be compulsory at age 72 and there is provision for removal on grounds of incapacity or misbehaviour.

Secondly, the maximum membership of the Commission is increased from ten to twenty-five.

Thirdly, the functions of the Commission will be exercisable by groups of not less than five members. In relation to any reference which has been remitted to it by the chairman, a group will have all the powers and duties assigned to the Commission under the Monopolies Act and its report will be a 'report of the Commission' for the purposes of that Act. No conclusion in a group report will, however, empower the Government to take remedial action under the principal Act unless it is the conclusion of at least two-thirds of the members of the group.

The Bill relates only to the constitution and organization of the Commission; it does not in any way modify the powers and duties of departments under the Monopolies Act or the statutory conditions governing the making of references.

Hill-cattle Subsidy

The Minister of Agriculture has announced that he proposes to pay a subsidy of £10 a head on breeding cows and on in-calf heifers in regular breeding herds kept on hill and upland farms in England and Wales.

All calves in the herd must be reared but surplus milk may be sold in summer, the subsidy being reduced in proportion to the quantity sold. Cows kept solely for milk will not qualify. The subsidy will continue for the four years 1953-56. For 1953, the existing hill-cattle subsidy will continue but not more than £10 will be paid for the same animal.

Colonial Development Funds

The way is now being paved for the provision of official funds for colonial development over the period 1955 to 1960. It is probable that these provisions will include an extension of the time over which the moneys made available under the Colonial Development and Welfare Acts of 1945 and 1950 may be spent. These Acts put £140 million at the disposal of colonial development, but with seven out of the ten years now gone only about £71 million has been spent.

To ease the transition from the old period to the new, colonial Governments are to be allowed to enter into commitments (provided they get the customary Treasury consent) beyond the existing time-limit which is the end of the first quarter in 1956 and they may also exceed the total of £140 million by £7 million.

An extension of the original Acts is not likely to be a controversial issue. The idea built into them that the United Kingdom Government should put a limited amount of funds at the colonial Governments' disposal to be used to provide capital at key points to generate expansion of each territory's economic and social assets has worked well in practice. It also coincides with an era of colonial prosperity when the territories concerned have been able to reinforce the fund very substantially from their own resources and when the need for the United Kingdom to increase its overseas investments, difficult as that may be, has been a paramount feature of its financial policy.

Resilient Production

An improvement in the tempo of trade and industrial activity has been apparent for some time so far as could be judged from individual experience and passing evidence. This general air of increased prosperity, which may have owed something to the Coronation preparations, has begun to be reflected in the statistics. Recent reports from the retail trade and the employment figures have provided some indication of what was happening. Now there is come the trend of bank advances (which are mentioned in another note) and the official figures of industrial production.

Provisional estimates for May put the industrial production index at between 119 and 120 compared with 118 a month before and with 117 in May 1952. Exact comparisons at this time of the year are difficult to make as between the same month in different years owing to the way in which the Easter and Whitsun breaks fall. The figures, however, give the impression that output had recovered by May to

something like the levels achieved in the spring two years ago. Indeed, it may prove to have been slightly better.

A gradual improvement in output is very much on the lines of the Budget forecast, and the Chancellor of the Exchequer expressed himself as well pleased with the trend of events in the domestic field when he spoke on the subject in the House last week. What does not yet come out of the figures is how far the improvement consists of an increase in industrial investment as opposed to consumer spending and re-stocking. There is some evidence to suggest that even in this matter things are going the right way, but it is too early yet to trust the scrappy evidence available. Certainly there is little sign of disinflation - which was in the air at Budget time.

Slight Drop in Bank Advances

According to the quarterly figures of the British Bankers' Association, the total of advances was reduced by about £3 million between February and May. This fall is small compared with the one experienced at the same time last year when advances were reduced by £52 million.

The outstanding decline was in the category of public utilities, other than transport, at £41.3 million. This heavy fall was largely due to the receipt of funds from the long-term capital market by the British Electricity Authority which has been able in consequence to pay off bank debt with the proceeds. Other significant reductions in advances were recorded by engineering and personal and professional accommodation.

Increases were noticeable particularly in iron and steel, shipping and shipbuilding, cotton and wool, agriculture, food, drink and tobacco, the retail trade and the general financial category. Some of these increases were, of course, seasonal but the general impression one gets from the figures is that, apart from the public utilities, advances have been growing to many trades and industries and not only to those experiencing a seasonal upswing. The professional and personal categories are still curtailed but apart from this the only noteworthy feature is the fall in accommodation to the engineering industry.

Shipbuilding Costs Again

In recent weeks no fewer than four contracts for ships on Clydeside have been cancelled. The latest one occurred last week when the Pacific Steam Navigation Company, a subsidiary of Royal Mail Lines, stopped the building of a passenger cargo-ship of some 11,000 tons.

These developments are straws in the wind and ominous ones at that. This type of tonnage is needed, both to bring the British mercantile marine up to date and to give the yards, which have been heavily dependent of recent years on oil-tanker tonnage, a variety of work. This is indeed the hard way for an industry, or part of it, to learn that costs cannot rise indefinitely.

FINANCE AND COMMERCE

The turn of the half-year has brought institutional investors back into stock-markets and the general tone is firm as a result. Evidence of recovery from last year's trade recession has brought demand for selected industrial equities.

Tax Saving

Last year's setback in the textile and chemical trades persuaded many groups to transfer assets to new subsidiary companies and to make holding companies of existing concerns for tax saving purposes. One company which carried out such an operation was Howards & Sons Ltd, best known for the manufacture of 'Aspirin'. In his statement with the 1952 accounts, now presented, the chairman points out that the action was taken on the recommendation of the company's auditors whom the Board 'naturally consulted' when the recession in trade disturbed the company's position.

The year's operations, the accounts show, resulted in a net loss of £34,099 compared with a profit of £107,696 in 1951 but the position is retrieved by the writing back of a net £74,210 from previous provisions for taxation. A note to the accounts states that the release of this amount results mainly from the transfer of the company's trading activities to a new subsidiary from April 2nd, 1953.

Besides this 'most far-reaching recommendation' the accountants recommended certain improvements in the organization structure and also in the records and statistics of the company. These are being put into effect. With sales improving and production economies taking effect current results indicate that the company is no longer trading at a loss.

Assets Revalued

The 1953 accounts of Henry Hope & Sons Ltd, the metal-window and door-frame concern, show the application of the revaluation of the parent company's fixed assets carried out in 1951. The result of the revaluation was a surplus of £823,243 which has been placed to capital reserve. In the parent company's balance sheet the net total of fixed assets was £1,564,593 at March 28th last, compared with £743,284 at the end of the 1951-52 financial year on the old value basis.

In the 1952 accounts the revaluation was adopted as the basis for depreciation but the assets figure in the balance sheet was unaltered. Now the full application is made and there is also another indication of the Board's concern with changing money values in the statement by the chairman on dividend policy.

While it is not the intention of the Board to depart from a conservative dividend policy they 'realize that the value of money is far less now than it was before the war'. Dividend is increased from 12½ to

17½ per cent and a special Coronation Year bonus of 5 per cent is added. This distribution, it is emphasized, represents only 1.06 per cent on the total capital employed in the business.

With Additions

To most of our readers the accounts of Cartwright & Edwards (Longton) Ltd, which we reprint this week, will probably be something out of the ordinary. To shareholders in the company, however, the accounts are nothing exceptional because they have been presented in this out-of-the-ordinary manner for the past four years.

Separate accounts of both companies – the operating and parent concerns – are submitted because the directors consider that these give fuller information and are less confusing than consolidated accounts. That, of course, is a matter of opinion and the easiness or otherwise with which company accounts are read depends to a very large extent upon the form of account to which the reader is accustomed. There are presumably no complaints from Cartwright & Edwards' shareholders.

We found the interjection of the 'additions' column between the 1951 and 1952 figures, and the placing of the 1951 figures next to the narrative confusing at first particularly as we began to read from the operating company's profit and loss account, which appears on the back page of the accounts in the original and has the 1952 figures next to the narrative.

Money Market

Raising of the market's Treasury bill bid to £99 8s 4d brought a reduction to £2 6s 8.48d per cent in the average discount rate of July 3rd. Applications totalled £334,115,000 and the market received 75 per cent of requirements. This week's offer is £260 million.

CARTWRIGHT & EDWARDS LTD (Operating Company) Profit and Loss Account year ended December 31st, 1952

	1952	1951
Trading Profit	£ 19,484	£ 27,060
Rents Receivable (less Outgoings)	117	58
Investment Income Gross - Trade	61	40
Deferred Repairs executed	—	1,605
	19,662	28,763
Less Directors' Emoluments	£ 4,750	£ 4,750
Depreciation	11,392	11,911
Audit Fee and Expenses	172	172
	16,314	16,833
Net Profit before Taxation	£ 3,348	£ 11,930
Income-tax on Current Profits	1,189	724
Profits Tax on Current Profits	95	176
Adjustment of Profits Tax, 1949	Cr. 729	—
Net Profit after Taxation (Dividend to Parent Co)	£2,793	£11,030

CARTWRIGHT & EDWARDS LTD (Operating Company) Balance Sheet as at December 31st, 1952

	31/12/51	Additions	31/12/52
Capital Employed			
Ordinary Shares (Authorized and Issued in £1 Shares)	52,500	—	52,500
Capital Reserves: Net E.P.T. Reserve Account	3,784	—	3,784
Appreciation on revaluation of Fixed Assets at December 31st, 1947	97,249	—	97,249
Special Reserve Account	44,997	—	44,997
Equity	198,530	—	198,530
Loan from Parent Company	21,206	—	21,206
Total Capital Employed	£219,736	—	£219,736

Employment of Capital

Fixed Assets			
Freehold Land and Buildings at Valuation at December 31st, 1947, plus additions at cost	145,021	+	739
Ovens, Kilns, Plant, Machinery and Equipment, Loose Tools, etc., at Valuation at December 31st, 1947, plus additions at cost	122,260	+	2,715

Less Depreciation	267,281	+	3,454
	40,843	+	11,392

Trade Investments at Cost	226,438	—	7,938
	200	—	200

Total Fixed Assets	226,638	—	7,938
	218,700	—	218,700

Current Assets			
Stock-in-Trade at Directors' Valuation	54,785	+	12,236
Debtors	18,371	+	51

Total Current Assets	73,156	+	12,287
	85,443	—	85,443

Current Liabilities and Provisions			
Trade Creditors and accrued charges	22,926	—	2,502
Accrued taxation	180	—	206

Amount due to Parent Company	11,956	+	2,793
Provision for Disposal at Sutherland Pottery	781	—	14,749
Bank Overdraft	44,215	+	3,912

Total Current Liabilities	80,058	+	4,349
	84,407	—	84,407

Net Current Assets	—	6,902	+
	7,938	—	1,036

Total Net Assets	219,736	—	219,736
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1. A Debiture giving a charge on all the Assets of the Company has been created in favour of Lloyd Bank Ltd, as security for the overdraft.
2. The estimated aggregate of Contracts for Capital Expenditure unprovided for is valued by the Directors at
3. The trade investments are valued by the Directors at
4. Provision for Bad Debts deducted from Debtors
5. Written-down Value of Fixed Assets:

Freehold Land and Buildings	134,714	739	2,953
Kilns, Plant, Machinery, etc.	91,724	2,715	8,439
	£226,438	£3,454	£11,392
			£218,500

For and on behalf of the Board, N. EDWARDS
F. E. GREENWOOD } Directors.

REPORT OF THE AUDITORS TO THE MEMBERS OF CARTWRIGHT & EDWARDS LTD
We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet and annexed Profit and Loss Account which are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given us the said Accounts give the information required by the Companies Act, 1948, in the manner so required and the Balance Sheet gives a true and fair view of the state of the Company's affairs as at December 31st, 1952, and the Profit and Loss Account gives a true and fair view of the Profit for the year ended on that date.
Federation House,
Stoke-on-Trent.
(Signed) BOURNER, BULLOCK & CO.
Chartered Accountants, Auditors.
June 10th, 1953.

CARTWRIGHT & EDWARDS (LONGTON) LTD (Parent Company) Balance Sheet as at December 31st, 1952

	31/12/51	Additions	31/12/52
Capital Employed			
Ordinary Shares (Authorized and Issued) - Shares of 1s each	225,000	—	225,000
Capital Reserve Account	20,979	—	20,979
Revenue Reserve	15,292	+	2,793
Total Capital Employed	£261,271	+	2,793
			£264,064

Employment of Capital

Assets:

Investment in Wholly-owned Subsidiary Company,			
52,500 Ordinary Shares of £1 each, fully-paid in Cartwright & Edwards Ltd, at Cost	224,999	—	224,999

Formation Expenses	3,000	—	3,000
Formation Expenses re American Subsidiary	108	—	108

Receivable from Operating Company	11,956	+	2,793
Loan to Operating Company (Cartwright & Edwards Ltd)	21,207	—	14,749

Cash at Bank	15	—	21,207
			15

Total Assets	261,285	+	2,793
	14	—	264,078

Less Current Liabilities	14	—	14
Total Net Assets	£261,271	+	2,793
			£264,064

REPORT OF THE AUDITORS TO THE MEMBERS OF CARTWRIGHT & EDWARDS (LONGTON) LTD
We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the above Balance Sheet and annexed Profit and Loss Account which are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given us the said Accounts give the information required by the Companies Act, 1948, in the manner so required and the Balance Sheet gives a true and fair view of the state of the Company's affairs as at December 31st, 1952, and the Profit and Loss Account gives a true and fair view of the Profit for the year ended on that date.
Federation House,
Stoke-on-Trent.
(Signed) BOURNER, BULLOCK & CO.
Chartered Accountants, Auditors.
June 10th, 1953.

For and on behalf of the Board,
N. EDWARDS
F. E. GREENWOOD } Directors.

CARTWRIGHT & EDWARDS (LONGTON) LTD (Parent Company) Profit and Loss Account year ended December 31st, 1952

Dividend from Subsidiary Company, representing net profit for the year ended December 31st	1951	1952
	£11,030	£2,793

REVIEWS

Palmer's Company Precedents**Part III: Debentures****Sixteenth Edition**

by Judge A. F. Topham, K.C., LL.M. (deceased)
and

R. Buchanan-Dunlop, B.A., Barrister-at-Law

(Stevens & Sons Ltd, London. £6 6s 6d net)

This volume completes the imposing Palmer trilogy on company law forms. Every form which could conceivably be required in connection with company debentures, whether in the process of litigation or otherwise, appears to have been included and, of course, the necessary alteration of references and of law made necessary by the Companies Act, 1948, has been duly dealt with. This alone would make the book essential for any professional man who deals with company law or the lending of money to companies, but the notes appended to the forms comprise a text-book in themselves.

Particularly instructive are the copious practical notes on the problems of obtaining advances from banks.

One observes with regret that although the extensive changes in stamp duty rates introduced by the Finance Act, 1947, have been duly dealt with, the perhaps even greater changes ushered in by the Finance Act, 1949, appear to have been overlooked. In the next edition the editor will perhaps consider the advantage of showing the latest rates of stamp duty in the body of the text, in place of the obsolete rates, instead of leaving the reader to discover the new rates from footnotes or by means of an arithmetical computation. There are several sections of the Companies Act in which debentures figure prominently but which are not mentioned in the book. Examples are Sections 5, 103 and 174. Admittedly these sections are not closely concerned with forms, but a brief mention of them in the notes might add to the book's utility.

The Company Director**His Functions, Powers and Duties**

by Alfred Read, C.B.E., F.C.I.S., F.Inst.D.

(Jordan & Sons Ltd, London. 30s net)

This new book has been prepared under the authority of the Council of the Institute of Directors and it is extremely sound besides being handsomely produced. It does not confine itself to company law but extends to other matters with which the company director may be expected to contend.

Indeed, the author embarks in his introduction on some polemics about the social value of directors as a class, a subject on which he must surely be regarded as preaching to the converted, since the book is addressed to those who have accepted appointment as directors. Such of them – and they are many –

who have had no formal instruction on the great body of law which governs their activities, could hardly do better than study this book, while those already well versed in company law may also read it with advantage. In the next edition the author may consider correcting his statement, on page 14, that the object of the definition of director, as including a person 'occupying the position of director by whatever name called' (Companies Act, 1948, Section 455 (1)) is directed at the man who shields himself behind 'dummy' directors who do his bidding. The definition does not go as far as that.

Studies in Costing

Edited by David Solomons, B.Com., A.C.A.,

Reader in Accounting, University of London

(Sweet & Maxwell Ltd, London. 35s net)

A volume of 650 pages allows the anthologist reasonable elbow room. The editor of this collection divides his rich material into five sections. The first is historical, the second is mainly theoretical and the remaining three are devoted to practical matters – costing as an instrument of planning, costing as an instrument of control, and costing in the service of government. Each of the twenty-six contributions combines authority with literary grace and the whole assembly has that pleasing balance which only the anthologist who is in perfect sympathy with his subject can achieve. This book raises the contemplation of costing into the realms of intellectual abstraction without forgetting the hard fact that the arena for many of its ultimate battles is the factory floor. It can be unreservedly recommended to any accountant who considers that costing makes dull reading.

Statistics as Applied to Accounting Data

adapted by C. R. Curtis, M.Sc., Ph.D., F.C.I.S.
from 'Advanced Accounting',

by R. Keith Yorston, F.C.A.(Aust.),

E. Bryan Smith, A.I.C.A., and

S. R. Brown, F.C.A.(Aust.)

(Sweet & Maxwell Ltd, London. 22s 6d net)

When the definitive Australian manual *Advanced Accounting*, was reviewed in these columns nearly three years ago, it was remarked that the final chapters on the application of statistics to accounting contained, as Huckleberry Finn said of *Pilgrim's Progress*, 'statements interesting but tough'. This section has now been severed from the main text of the original book to form a separate volume. The schism and necessary adaptation have been skilfully done. The new version has a pleasing roundness and unity and its 150 pages of theory and example should be of real value to the accountant, both in the preparation of financial information for management and in the interpretation of accounts.

The Business Doctor
by Walter Pinner, Dr. Econ. (Halle-
Wittenberg)

(Sir Isaac Pitman & Sons Ltd, London. 18s net)

The object of this treatise, as a sub-title indicates, is to diagnose the causes and, thus forewarned, to ensure the prevention of business losses and failures. The first part deals with the business man and his professional advisers and the opening chapter considers his relationship with the practising accountant and the cost consultant. The author's ideas of the accountant's functions and responsibilities as auditor seem slight in the extreme and, although his subsequent examination of the causes of business ills makes interesting enough reading, the suggestion of superficiality which the first chapter gives persists throughout this short and, somehow, unsatisfying book. Dr Pinner's principal advice to business executives is that they should make better use, when things go wrong, of the various forms of expert professional advice available, a conclusion with which all accountants, too often summoned too late, will agree.

Letters from a Bank Parlour
by W. S. Hill-Reid

(The Falcón Press, London. 9s 6d net)

Mr Hill-Reid is to be congratulated once again on a very readable and instructive book.

The title may suggest a series of dry-as-dust epistles, full of technicalities, which would not, of choice, be of interest to the ordinary person. In fact, however, the 'letters', some written to a young man and others to a young woman, are full of dry humour, are couched in a very engaging style, and are technical only when necessary. They contain a wealth of wise advice and helpful information on every-day money matters and are designed to help these young people to ensure future happiness by the avoidance of financial worries. But whether he be young or old, the reader cannot fail to benefit from the wisdom which the author has passed on out of the fund of experience gained by him in the pursuit of his calling.

**The Secretarial Practice of Local
Authorities**

by W. Eric Jackson, LL.B., Barrister-at-Law
(W. Heffer & Sons Ltd, Cambridge. 20s net)

The Chartered Institute of Secretaries has sponsored this publication which in the main deals with the committee procedure of local authorities. The first few chapters serve to form a background to the rest of the book, dealing as they do with the nature and constitution of local councils, the creation of boroughs and qualifications for membership of local authorities generally. The book's main purpose is to deal with the secretarial practice relating to the work of a local authority such as the preparation of agenda papers and minutes of meetings, and the procedure to be

followed in convening and controlling council meetings. Rules of debate for the orderly conduct of business are very well set out in a clear and attractive style. The author does not hesitate to give his own opinions and he supports them with reasoned arguments.

Other chapters deal with administrative details in a more cursory manner; the result is a well-written book which should be useful as a guide to both officers and members of local authorities. It can be no more than a guide on many of the points raised, for the matters dealt with cover a wide range in few pages. Nevertheless, the book is a useful addition to the few publications on this somewhat neglected topic.

SHORTER NOTICES

BANKING, by J. B. Parker, A.I.B. (The English Universities Press, London. 6s net.) One of the 'Teach Yourself' series, this book is intended for those who wish to learn something of the relationship, in law and in practice, between bankers and their customers, and also for those who are interested in the staff side of the larger banks. The author has not attempted to go into technical matters too deeply (this would be impossible in a volume of 160 pages), but he has succeeded in painting an informative picture of British banking.

HANSON'S DEATH DUTIES (Ninth Edition), Fifth Cumulative Supplement, by Jackson Wolfe, LL.D., Barrister-at-Law, and Henry E. Smith, LL.B. (Sweet & Maxwell Ltd, London. 20s net.) This new supplement brings *Hanson* up to September 13th, 1952. A particularly interesting feature is the reference to a concession by the Inland Revenue in a case affected by the decision in *In re Lambton* ([1952] 2 All E.R. 201; 31 A.T.C. 300). Under it, the Inland Revenue will for the time being allow a 'slice' deduction for a continuing annuity, instead of merely the actuarial value, provided the annuity was created by the same disposition as created the life tenancy and the property was not settled by the deceased life-tenant himself.

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES (Tenth Edition), Second Cumulative Supplement, by M. M. Wells, M.A., Barrister-at-Law (Butterworth & Co (Publishers) Ltd, London. 5s net.) This supplement, designed to be inserted in a pocket in the main volume, brings it up to date as at September 1st, 1952. A much improved quality of paper has been used this time.

A HUNDRED YEARS OF THE HALIFAX, by O. R. Hobson. (Batsford, London.) The Halifax Building Society is not the oldest, but it is certainly the largest of the building societies and has attained a respectable antiquity by celebrating its centenary this year. The directors have marked the occasion by the publication for private circulation of a lavishly produced history, written by a distinguished economist and financial journalist who has performed his task with considerable skill. The text has been embellished with many interesting illustrations.

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Accounting for Inflation

SIR, - Under this heading there has been considerable discussion regarding 'truth' in accounting. It is submitted that it is the 'relevance' not the 'truth' of the various theories which is at issue.

Let us suppose that a person engages in a venture in year 1 with £100 cash, and in year 5, having made no 'drawings', finds himself with £300 in cash; in the meantime the purchasing power of money has depreciated by one-half. The results of this venture can be interpreted in at least two ways. In terms of £s his profit is £200; in terms of units of purchasing power his profit is the equivalent of £(year 5) 100 [or £(year 1) 50].

Both these statements are true. Which is relevant, or the more relevant, cannot be answered by accounting alone.

Lawyers and economists do not claim to be the only persons responsible for determining what the law or economic policy should be; both are aware of the limitations of their own contributions, particularly if they are based purely on conceptual analysis. Unfortunately many accountants, and members of other professions who should bear some of the responsibility for determining which of the concepts under discussion are for various purposes most relevant, still tend to regard this analogous problem of what should be, as solely an accounting one.

Yours faithfully,
T. R. JOHNSTON.

Trinity Hall, Cambridge.

Treatment of Taxation in Accounts: *Hutton v. C.I.R.*

SIR, - I do not think that taxation ought to be 'provided' in accounts by any of the four now accredited methods but should be left as part and parcel of the profit and loss balance. There are other advantages of this method but they need not be dealt with here. The basis underlying my suggestion consists of the fact that taxation is not a liability, for this arises only from some contract entered into or some obligation undertaken by the company. Taxation on the contrary arises only with profits and is a requirement on the company to pay over on a given date the share of such profits due to the Government.

This brief outline of the position is necessary to a true appreciation of what must otherwise be a startling decision in the case of *Hutton v. C.I.R.* In giving judgment, Mr Justice Upjohn said (and in doing so gave a lesson in accountancy):

'The company has made profits . . . it can pay tax in two ways . . . by . . . paying cash out of its general

fund standing to credit of profit and loss account . . . or by making provision . . . by the purchase of tax reserve certificates.'

What a masterly exposition of a matter of fact problem, namely, the handing over to the Government of its share of profits.

The remainder of the judgment proceeds to explain that the second method, that is, the purchase of tax reserve certificates, is really only a method whereby the purchase operates as the payment of the present value of a future larger obligation; a calculation of daily occurrence to actuaries. The 'interest' is the means of calculating the larger sum, for all that is required to be done is to add the interest to the cost and the sum so obtained is the larger obligation. The interest is not interest of money lent but merely the factor enabling present value and future obligation to be equated.

Were it not out of place I feel a vote of thanks ought to be passed to the learned judge for showing accountants generally the way out of the labyrinth they have created in attempting to deal with taxation in accounts.

Yours faithfully,
E. HARMAN.

London, EC2.

'The Accountancy of J. M. Keynes'

SIR, - I sincerely trust I am not just being charitable, when I assume that the last paragraph of Mr Striker's most interesting article on 'The accountancy of J. M. Keynes' (June 27th issue), in which he makes the astonishing statement 'that there is, in economic theory, a lamentable ignorance of the facts of economic life . . . and that it therefore behoves the accountant to regard with profound suspicion the literature of theoretical economics' was just added at the last moment in the hope of stinging some academic economist into replying.

I trust this to be so, particularly because I think that accountants as a group are probably the slowest by comparison with other professions to accept and act on advances on new developments in their own principles and thought.

An instance of this may be seen in Mr Striker's own article. This is especially amusing as he himself draws attention to text-book inaccuracies, which in spite of the suggestions of the Carr-Saunders Committee, have shown as he says no signal improvement.

Mr Striker refers under his definition of the term 'supplementary cost' as used by Keynes to a 'reserve for obsolescence' and such an item also appears in the manufacturing and profit and loss account given as an illustration. Now I am quite sure that Mr Striker is aware that the Companies Act, 1948, defines a 'reserve' in such a way that the term cannot

be applied to any balance representing a liability or to a depreciation provision, yet the old term persists, and though it might be pleaded that the account shown is that of a private trader to whom the Act does not apply, it is recognizably better practice as adopted in the Recommendations on Accounting Principles (though here I would agree with Professor Baxter that for a professional body to issue official recommendations seems wholly wrong, as tending towards rigidity of thought) to distinguish carefully between provisions and reserves and to confine the latter term to profits which have not been distributed as dividends.

Yours faithfully,

London, SW5.

J. R. TAYLOR.

SIR, - In his criticism of the *General Theory*, Mr Striker accuses Keynes of having failed to distinguish between debit and credit.

What an unreasonable criticism!

The function of an economist is to contemplate the economic system as a whole, wherein debits are exactly cancelled out by credits.

It is none the less essential that economists realize that for every debit entry there is a credit entry.

Yours faithfully,

London, W2.

J. S. ROSS.

'Mistake in Contracts'

SIR, - It was with interest that I read Mr Sophian's article in which he pursues the chain of legal decisions in which the recent case of *Harrison & Jones Ltd v. Burtan Lancaster Ltd* ([1953] 1 All E.R. 903) is the latest link. I was surprised, however, to find *Cundy v. Lindsay* ((1878), 3 A.C. 459) quoted as an instance of a voidable contract. The House of Lords held that no contract had been made between the respondents, Lindsay & Co, and Blenkarn, 'the dishonest man', with the result that Blenkarn never had a possessory title which he could transfer to the appellants; i.e. this was a void contract, not voidable.

Similarly the controversial case of *Sowler v. Potter* ([1940] 1 K.B. 271) (referred to as *Fowler v. Potter* in the article) appears at first to be inappropriately cited. Tucker, J., held that the lease was void *ab initio* because the plaintiff had been mistaken with regard to the identity of the person with whom she was contracting. It is true, however, that he also held that the lease had been induced by the defendant's fraud and was therefore voidable. Doubtless it is to this aspect of *Cundy v. Lindsay* also that Mr Sophian refers.

With respect, I submit to Mr Sophian that the case of *Phillips v. Brooks* ([1919] 2 K.B. 243) is more directly in point in his context. In the circumstances of this case the fact that the seller was induced to sell by the fraud of the buyer standing physically in his presence made the sale valid until disaffirmed - i.e. voidable but not void.

To quote from Cheshire and Fifoot on *The Law of Contract*:

'In the rare cases where fraud has been held to be of such a nature as to induce fundamental mistake, the common law declares the contract to be void. Apart from this, however, the effect of fraud in every case is to render the contract voidable.'

It is perhaps misleading of Mr Sophian to choose a couple of the rare cases to support his argument which is well borne out elsewhere.

Yours faithfully,

Mill Hill, NW7.

R. I. SLOCUMBE.

[Mr Sophian writes: Your correspondent's observations are quite correct with regard to *Cundy v. Lindsay*. What I was referring to, however, was the case in the Court below, *Lindsay v. Cundy*, and to the view of Blackburn, J., reported in 1 Q.B.D. 348, at page 355. That reference should have been substituted for 3 A.C. 459.

As regards *Sowler v. Potter* ([1939], 4 All E.R. 478), I agree that the lease was held there to be void, and it should not have been included for that reason, in the paragraph in the article. But at the same time it is open to argument that the lease there should have been held to have been voidable - and not void.]

Accountancy Qualifications

SIR, - I have followed with great interest the recent correspondence in your columns on the question of unqualified accountants and co-ordination.

However, one point all your contributors seem to have overlooked is that the existing accountancy bodies, the Institute, Society and Association, provide a means of obtaining a recognized accountancy qualification to all those wishing to follow the profession of an accountant. What, then, are the use of all the other bodies of accountants to the public, or, indeed, to their members themselves? For the latter it can be suggested that perhaps they have not sufficient interest in their chosen profession to obtain a recognized accountancy degree or, alternatively, they have not the learning to obtain one of the recognized qualifications, open only to successful examination candidates. What other reasons can be put forward on their behalf?

There is nothing 'fortunate' in being a member of the recognized bodies of accountants, those who enjoy such status have worked to get there and should not be considered 'lucky'.

If co-ordination is to be shelved for the present, I consider that the Institute, Society and Association should use judicious publicity in order to bring to the notice of the less informed of the public the exact meaning of a recognized accountancy qualification and its descriptive title and letters so that the public are not misled intentionally or otherwise by the so-called 'quack'.

As a chartered accountant with a small practice, I find that this frequently happens.

Yours faithfully,

Egham, Surrey.

N. H. DAVIS

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

ELEVENTH ANNUAL GENERAL MEETING

The eleventh annual general meeting of the London and District Society of Chartered Accountants was held in the Oak Hall of the Institute on June 25th, with Mr Douglas A. Clarke, LL.B., F.C.A., chairman of the Society, presiding.

The report of the Committee for the year to March 31st, 1953, was taken as read.

CHAIRMAN'S ADDRESS

The chairman then delivered his address from which we reproduce the following extracts:

Membership

During the year there has been a net increase of 45 in the membership of the Society to a total of 2,442. I would like to take this opportunity of reminding members of the Institute working or living in our area that membership of this Society involves no subscription and can be obtained by making a written request to the secretary.

Evening Meetings

During the year the evening meetings were well attended. There were three main groups of addresses each consisting of three subjects, making nine evening meetings in all.

The first main group gave an approach to management accounting,¹ a subject of current interest which has been commended to district societies by the Council. The opening address on 'Principles of management' was by Sir Hugh Beaver, chairman of the British Institute of Management, and many members will have recalled the similar series of addresses arranged by the Society four years ago when the opening address was given by Sir Charles Renold, the previous chairman of that Institute. The second address on 'Business organization and accounting structure', was by Mr Lawrence Robson, a member of our Institute Council, and the third of the series on 'Business forecasting' was by Mr A. P. Ravenhill, a member of your Committee.

The second main group of addresses on taxation² was begun by Mr John Senter (since appointed Queen's Counsel), on 'The excess profits levy'. He was followed by Mr H. D. Bessemer, B.A., one of our members, on 'Estate duty on company shareholdings', and by Professor L. C. B. Gower, of London University, on 'Companies and taxation', an address which gave advice on the advantages and disadvantages of incorporation.

In the third series on auditing and accounts, there was a topical address on published accounts by Mr Harold E. Wincott, the Editor of the *Investors' Chronicle*, under the title 'Has the Companies Act, 1948, helped investors?'³ and an interesting discussion

on stock valuation which was opened by Professor Baxter and Mr David Solomons, of the Department of Accountancy at the University of London, Mr Solomons being a co-opted member of the London Regional Taxation and Research Committee.

Mr Kraayenhof's Address

Mr J. Kraayenhof, a past president of the Netherlands Institute of Accountants and head of their delegation to the Sixth International Congress, gave us on February 4th, 1953, an address on 'International auditing practice', in which he discussed the problems involved in achieving uniform procedure. We were delighted to have the opportunity of welcoming him as a distinguished leader of the profession in Holland and of expressing our sympathy with his country's misfortunes through storm and flood. He gave us the opportunity of seeing our own auditing practice against an international background, in comparison with practice in the United States of America, in Holland and in Germany. To achieve greater uniformity in the practice of auditing, Mr Kraayenhof advocated international understanding between accountants and stressed the value of informal discussion between representatives of the four countries. Mr Kraayenhof's address⁴ has attracted some attention in the United States in the columns of the *Journal of Accountancy* for May 1953.

Luncheons

There were three luncheons during the season which were followed by short addresses. The limited time available sets the speaker a problem in planning his address. Our members had the opportunity of enjoying and comparing the style of Lord Rennell of Rodd on 'The professional accountant'; Mr Harold Watkinson, M.P., who gave an address on 'Productive efficiency'⁵ (which included a remarkable summary of the Government's approach to relations with labour), and the Hon Mr Justice Upjohn, C.B.E., who out of unrivalled experience gave entertaining and valuable advice on 'The accountant in the witness-box'⁶. All the speakers maintained a light touch and solved the artistic problems of time and matter.

For the first time since 1938, a dinner and dance was held at *The Park Lane Hotel* and this proved to be a most enjoyable occasion. The President of the Institute, Mr T. B. Robson, and Mrs Robson, were present and received the members and guests. There were no speeches and it was evident that the decision to hold the function had been fully justified.

This increased programme was instituted by the Programme Sub-committee only after some anxious thought and in the circumstances of the year has proved to be a success. With a greater number of

¹ See *The Accountant*, dated November 29th, 1952, and March 7th and 21st, 1953.

² See *The Accountant*, dated January 10th and May 30th, 1953.

³ See *The Accountant* dated May 9th, 1953.

⁴ See *The Accountant* dated March 14th, 1953.

⁵ See *The Accountant* dated January 17th, 1953.

⁶ See *The Accountant* dated April 11th, 1953.

fixtures it has been possible to have a variety of subjects, and members can choose the topics that interest them more. Equally important is to have a variety of speakers. Attendances were certainly not diminished by the greater frequency of the meetings and were helped by the issue for the first time of an advance programme covering the whole season. The new duplicate gummed slips for desk and pocket diaries have helped to prevent members overlooking the dates. Attendances at the luncheons have, I believe, been encouraged by the announcement that proceedings would be over at 2.30 p.m. and the precise fulfilment of this promise on each occasion should help to maintain for the future the goodwill of our members towards these pleasant and friendly functions.

At all our evening meetings and social occasions, Scottish and Irish chartered accountants in London are as welcome as if they were members of our own Institute.

Taxation and Research

The London Regional Taxation and Research Committee has continued its valuable work with Mr A. P. Ravenhill this year as chairman. It has considered various matters referred to it by the main Taxation and Research Committee or matters raised by members of the Society. Those members of the Committee who have shared in the preparatory work on memoranda submitted by the Institute to the Tucker Committee on Trading Profits and Retirement Benefits and to the Royal Commission on Taxation, will be happy to see some of the suggested reforms being made law year by year in the Finance Acts. Those who are in practice are waiting, as patiently as they may, for the publication of a report of the second Tucker Committee on Retirement Benefits, expecting that even after the report is issued the legislative mills will grind slowly. We shall certainly all be rather older before the tax laws in this respect treat self-employed persons fairly.

Each year, immediately on the first publication of the Finance Bill, a subcommittee examines the Bill and transmits at once to the main Taxation and Research Committee any recommendations as to amendments which are required in order to correct faults and anomalies or to repair deficiencies which are apparent in the Bill. If within a very short time of the publication of a Finance Bill members discover anomalies or faults of drafting, and notify the hon. secretary in time, their points can be considered, but questions of a political character would be inappropriate for submission.

Articled Clerks

Articled clerks must belong to a students' society under the terms of their articles, and in the London area all new articled clerks are invited by the students' society to meetings of new members when they are given a welcome by the president and vice-presidents of the students' society. After that, various courses of lectures and demonstrations are provided by the students' society.

I would ask all principals in our area to do all that is possible to encourage their articled clerks to take full advantage of these facilities and of the opportunities of meeting other articled clerks that the society affords. We must recognize that each articled clerk has his own problems which, in the last resort, he must solve for himself. There may be periods of strain during articles when no time is available but this only makes it the more important that at other periods the articled clerk should mix with other articled clerks and make friends; take part in the life of the society; learn from the practical experience and advice of older members what cannot be learned from text-books; and fit himself better to take his place in a great profession.

There is a common field for the two societies in bridging the transit from the students' society to the district society. Last year the students' society suggested that young men newly qualified felt some reluctance to take part in the discussions at the evening meetings of the district society. It was thought that if more informal meetings were also held, there would be greater opportunity in the life of the district society for younger men to meet more experienced members. Your committee then decided to investigate the possibility of forming discussion groups of qualified members. Circulars were sent to our members and the experience of an existing discussion group of accountants was drawn upon.

Discussion Groups

As a result of the interest shown in the proposals, four discussion groups were formed, each with its own chairman and honorary secretary and each with members who are in practice, members in industry and members employed in the profession. Each of these groups has met regularly since last autumn and with the devoted work of the honorary officers and the enthusiasm of the members, these groups have had a successful season. Individual members volunteer to prepare short introductions on the main topics chosen, which are then discussed by the members present, while small points of practice can be discussed fairly fully inside a few minutes. New members receive a

support they were receiving. At Reading, the formal meeting, which was attended by members and their articled clerks, was followed by an informal meeting at which senior Inland Revenue officials of the Reading area were present and general questions of tax practice were discussed. At Southend-on-Sea I was invited to dinner and to speak afterwards on the work of the London and District Society, and on another occasion the vice-chairman was invited to dinner and to address the members present.

I am glad to say that the chairmen, Mr G. Talfourd-Cook, of Reading, and Mr J. Corbishley, of Southend, were able to come as guests at two of our luncheons.

District Societies

During the year I was invited as your chairman to the annual dinners of the other district societies. It was a great experience to meet so many of their members, to learn of local conditions affecting the profession and to see the quality of the articled clerks from whom their future members will be drawn.

In May, the committee and the London members of the Council entertained the president of the Institute, Mr T. B. Robson, to dinner at the Tallow Chandlers Hall and we were able to welcome to our district Mr Blakey, then vice-president of the Institute, and the presidents of the district societies.

At the dinner and dance and at luncheons we were happy to have with us as guests, representatives of organizations for London and District of the Scottish Chartered Accountants, of the Incorporated Accountants and of the Certified and Corporate Accountants, and I thank them for the invitations to their own functions.

A number of changes in membership of our committee are now arising. Our good wishes go with Mr A. N. Hollis who has begun to practise. Of the practising members, Mr E. F. G. Whinney, a former chairman, and myself cease to be elected members after appointment to the Council of the Institute. Of the

industrial members not in practice, Mr J. Clayton ceases to be an elected member on appointment to the Council, and Mr E. H. Davison does not seek re-election.

Many of our members will recall the entertaining debate some years ago between Mr Clayton and Mr Davison on the accounting treatment of rising price levels. Throughout their periods of service on the committee Mr Clayton and Mr Davison have always been willing to do their full share and more, and I would like to express our thanks for their helpful and valuable contributions towards its work.

The London and District Society has now completed fully ten years since it was launched with a new constitution with elected representatives of various sides of the profession. It had the initial advantage of succeeding to the work and traditions of the former London Members' Committee. It has had the continuing advantage of a succession of committee members who have been diligent to establish good relations between all its members and zealous to make this new constitution work. The running-in period is long over and the committee has achieved a method of working, some new traditions, and a character which should enable it to serve well the members of the London and District Society for the greater glory of the Institute as a whole.

Before concluding, I would like to express my personal thanks to the vice-chairman, Mr W. G. Densem, and to all the members of the committee for their support during the past year. I would thank also our honorary secretary, Mr J. W. G. Cocke, T.D., M.A., A.C.A. (and his deputy, Mr J. O. Milledge, A.C.A.), for being always so helpful and for carrying through a large volume of work with such distinction. I have valued very greatly the advice of Mr MacIver, the secretary of the Institute, on matters which are not wholly within the sphere of our district society and acknowledge the services so willingly given by the staff of the Institute.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND SUMMER SCHOOL AT ST ANDREWS UNIVERSITY

In our last issue we commented on the programme and arrangements for the first summer school for members of The Institute of Chartered Accountants of Scotland which

began on Friday, July 3rd, and ended last Wednesday.

We now summarize below the four papers on the subjects which were discussed.

Auditing

At the first technical session, Mr J. T. Dowling, C.A., gave a paper entitled 'Some auditing doubts and difficulties', in which he posed a number of current auditing questions. For instance, should the practice, recognized in the U.S.A., following the *McKesson and Robins* case in 1939, of the auditor attending at stock-taking be adopted in this country? How does the auditor verify the amount of wages and direct and indirect expenditure included in finished stock and what is the extent of the audit work required to verify work in progress?

Should the auditor obtain confirmation from the various debtors of the balances shown in the company's books as due by them? This is regarded as generally accepted audit procedure in U.S.A. and Canada but has not been generally

adopted here. With regard to creditors, would the auditor be negligent if he omitted to verify the balances shown in the ledger with creditors' statements?

Should the following matters, not at present general practice, be noted as contingent liabilities: profits tax, non-distribution relief; the relief obtained by restricting excess profits levy to the overriding limit of 15 per cent of total profits, the liability which may fall on a company where a 'direction' is made for sur-tax purposes, or the liability of a company accountable for estate duty by virtue of Section 46 of the Finance Act, 1940?

It is sometimes difficult, said Mr Dowling, for the auditor to express a definite view on the adequacy or otherwise of the amount charged for depreciation of fixed assets, but

where it is obvious that depreciation as such is either less or more than a fair and reasonable charge, can the auditor report that the profit and loss account shows a fair view?

It is primarily the responsibility of the directors to inform shareholders of events which have occurred after the close of the accounts and which may have a materially adverse bearing on the company's position as shown in those accounts. But if the directors fail to deal adequately with the matter has the auditor a duty to do so?

With regard to the audit of transactions during the year, would not the auditor's time be better spent in the intensive checking of a relatively small section of purchases and sales from inception to completion rather than in the extensive

checking of financial books with invoices? Should less time be devoted to vouching payments and more to examining receipts particularly those from cash sales? Should the auditor discuss the adequacy of the system of internal check with the directors and make clear to what extent protection against fraud depends on the maintenance of these safeguards?

In conclusion, Mr Dowling suggested that auditing technique should place greater emphasis on getting 'behind' the financial books to the assessment of the value of systems of control and the examination of working records not generally regarded as part of the financial books and, in consequence, to decrease the emphasis placed on detailed checking of the financial books.

Reports and Accounts

In the second technical session, Mr C. I. R. Hutton, C.A., and Mr A. Kellar, C.A., each gave a paper entitled 'Annual reports and accounts of limited companies'. Mr Hutton's paper consisted mainly of a number of 'personal prejudices' against certain Companies Act provisions, while Mr Kellar concentrated chiefly on the form and contents of published accounts.

In Mr Hutton's opinion, the use of the word 'limited' to describe corporations disposing of almost unlimited resources is now obsolete. Directors' reports which do not include even a few words on the state of the company's affairs are, he said, in breach of the Act.

He hoped to see the repeal of the Ninth Schedule with its implication that unless auditors are obliged to say whether everything is proper, they will be too frightened to mention anything that is improper. The use of the words 'subject to the foregoing' where the accounts of subsidiaries are audited by some other person casts an implied slur upon those other auditors and puts the profession to shame, in Mr Hutton's opinion. For purely practical reasons he deplored the obligation laid upon a group to adopt a uniform accounting date.

The rigidity of the standard form of accounts tends to emphasize the fluctuations between one year and another and where these run counter to the general trend of the business this aspect is not a helpful one. There is also the danger that accounts will become ossified and unable to keep pace with the changing world.

Both Mr Hutton and Mr Kellar included a reference to future taxation. Mr Kellar said that he 'cannot think of anything more divorced from reality than the advice given by counsel to the English Institute' - that it is a reserve. Mr

Hutton quoted a letter from the Board of Trade stating that the reserve for future tax in a subsidiary's accounts will remain available to meet the liability in those accounts, but, so far as the holding company is concerned, the tax liability will have to be met out of post-acquisition profits.

Dealing with the form of the balance sheet, Mr Kellar stated that he preferred the good old-fashioned two-sided statement. The deduction of current liabilities from current assets may, however, give a misleading impression. The fact that a balance sheet is an historic document and does not as a general rule purport to show the net worth of an undertaking on any particular date or the present realizable value of fixed assets cannot, he thought, be reiterated too often.

In the speaker's opinion the attempt in the 1948 Act to make a distinction between amounts permanently tied up in the business and amounts available for distribution has failed and only resulted in greater confusion. He would like to see a classification of reserves by origin rather than destination.

With regard to the form of the profit and loss account the speaker preferred the statement form. The use of a consolidated profit and loss account only avoids any misconception or distortion which might arise through inter-company trading.

On the question of depreciation Mr Kellar came down on the side of historical cost, considering too much personal conjecture entered into other suggestions; similarly in regard to the valuation of stock-in-trade. In conclusion, the speaker considered that, of all the statutory documents the profit and loss account, with all its defects, is yet the best guide to a true and fair view of the state of the company's affairs.

Management Accounting

In the third session a paper prepared jointly by Mr I. T. Morrow, C.A., F.C.W.A., and Mr R. W. Parker, C.A., was given entitled 'Management accounting'. In any consideration of management accounting, Mr Parker said, it must become clear sooner or later that one is dealing with an expansion of the objectives and uses of accounting, rather than any technical accounting processes of which this expansion is making use.

The responsibilities of a chief accountant normally fall into two main categories: firstly, the work which comprises a proper oversight of cash transactions and recording in the financial books; secondly, periodical and departmental accounts and cost statements essential for control purposes and the efficient conduct of the business. Some of the work in the first category and all that in the second comprises management accounting. Its object is to help management to function more efficiently - an object, incidentally, which the first-class industrial accountant has always tried to achieve.

The practice of using standards - comparing what has happened with what should have happened and taking effective action where necessary, all as part of a quick-moving routine - has been accepted as part of good indus-

trial management. Budgeting is regarded by many as an essential tool of management. Its primary use is to provide information for the use of management in deciding future policy; its next use is to define responsibilities by making individuals aware of the expenditure for which they are responsible.

Mr Morrow then described in some detail how one fairly large group of companies uses its management accounting. He stressed particularly the limited amount of time available to executives to study figures and the consequent necessity to confine them to essentials and the paramount necessity for speed. He then described the formulation of budgets, the type and content of returns prepared weekly and the use made of those returns.

In Mr Parker's opinion, the conditions which are necessary for the success of any form of accounting designed to help management in planning and day-to-day control are, firstly, co-operation and understanding between the accountant and user of the figures, and secondly, confidence of the user in the figures. The professional accountant can have an influence on management accounting either as an adviser or as an expert. In his role of adviser a knowledge of the potentialities of modern accounting practices seems

to be more important than an intimate knowledge of the techniques to be used. In the role of expert, some professional firms may elect to specialize as consultants in this field, others to create a separate department. The smaller firms, however, cannot meet the situation in this way. But

in many cases the intimate knowledge which these smaller firms have of their clients' affairs is invaluable. The medical profession has evolved a satisfactory relationship between the general practitioner, the specialist and the patient and, Mr Parker wondered, is there food for thought in this analogy?

Cost Accounting

At the fourth session, Mr W. S. Risk, B.COM., C.A., F.C.W.A., gave a paper entitled 'Cost accounting, with particular reference to the small- and medium-sized business'. Cost accounting has been defined, he said, as

'the process of accounting for cost which begins with the recording of expenditure and income or the bases upon which they are calculated and ends with the preparation of statistical data'.

'Cost' cannot be considered or calculated except in relation to the circumstances which give rise to it which are subject to constant change - for instance, the level of output and the usage of capacity. Cost accounting should therefore be dynamic, not static. The basic requirement for cost control is a preconceived plan or budget against which to compare the actual results. But this only provides the means not the control itself. It is the action which is taken in the light of the figures which provides the control. It is essential, therefore, that section heads get a clear statement of their own departmental results. In the formulation of policy, the role of cost accounting is to translate the plan or policy into monetary terms and by showing variances from the plan to show the extent to which it is being carried out

and whether or not it is profitable or likely to require amendment.

In the speaker's opinion there are two considerations to bear in mind in discussing cost accounting in relation to the size of the business. Firstly, the principles to be applied and the information required do not vary; it is the amount of work done and the cost which will vary. Secondly, the difficulties involved are not in relation to the size of the business but to the number of products and complexity of processes.

Mr Risk then outlined, by means of a number of well-chosen diagrams and forms, the design and development of a scheme - mainly of a standard costing nature - to illustrate the application of the principles of cost accounting to a medium-sized manufacturing business employing about 200 people. The first stage is to establish the processes of manufacture and their relationship to one another. Next, by combining the basic manufacturing data and times, the quantity and price of materials and the costing rates for overheads to produce a standard product cost for every product to be manufactured. Finally, cost control is obtained by comparison of actual results with the plan that has been laid down.

Results of Examinations held in May 1953

FINAL EXAMINATION

As a result of the examination held on May 18th, 19th, 20th, 21st and 22nd, 1953, the undermentioned 151 candidates qualified for the Institute's Final examination certificate: their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured (or assigned).

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|---|--|
| Ambrose, J. P. (G. J. Johnston & Smillie), Edinburgh. | Duthie, J. (Galbraith, McEwan & Co), Ayr. |
| Angus, A. (J. R. Davidson), Glasgow. | Elliott, H. (James Walker & Co), Glasgow. |
| Ayre, N. M. (Thomson, Jackson, Gourlay & Taylor), Glasgow. | Ellis, G. W. (Miller, McIntyre & Gellatly), Dundee. |
| Barnett, G. (J. C. Thomson & Co), Glasgow. | Ellison, R. A. (Peacock & Henry), Glasgow. |
| Bauchop, H. M. (Wallace & Somerville), Edinburgh. | Elworthy, R. H. (Thomson, McLintock & Co), London. |
| Bayley, T. S. (Scott & Paterson), Edinburgh. | Ewan, J. (McIntyre & Rae), Dundee. |
| Berryman, P. G. (Thomson McLintock & Co), London. | Ferguson, J. N. (Robert Taylor & Co), Edinburgh. |
| Black, R. G. (Baird & Macmillan), Glasgow. | Forrest, Miss A. B. (Jardine, Dunlop & Anderson), Glasgow. |
| Bowie, A. (James C. Cessford & Sons), Edinburgh. | Forryth, D. M. (John M. Geoghegan & Co), Edinburgh. |
| Brown, J. (Macmillan & Harkness), Glasgow. | Fraser, I. M. (David Strathie & Co), Glasgow. |
| Brown, J. H. (Maxtone Graham & Sime), Edinburgh. | Furse, A. W. (Howden & Molleson), Edinburgh. |
| Brown, J. G. McD. (James A. Jeffrey & Co), Aberdeen. | Gallacher, D. S. (McLachlan & Brown), Glasgow. |
| Brown, W. R. (Moore, Carson & Watson), Glasgow. | Galvin, B. J. B. (Parker, Vicary, Russell & Co), London. |
| Bryson, P. C. (Thomson McLintock & Co), Glasgow. | Gibson, J. (Moore, Carson & Watson), Glasgow. |
| Callander, R. C. (A. & J. Robertson), Edinburgh. | Goodlet, W. E. (Carter, Greig & Coy), Edinburgh. |
| Cameron, I. A. (Moody Stuart & Robertson), Dundee. | Greig, G. M. (Henderson & Loggie), Dundee. |
| Christie, R. G. (Nelson, Gilmour, Scott & Co), Glasgow. | Haay, P. D. (Rattray Brothers, Alexander & France), Glasgow. |
| Clark, M. (Aikman & Glen), Glasgow. | Hall, J. C. (Wallace & Somerville), Edinburgh. |
| Clark, T. D. L. (Wilson, Ferguson & Co), Glasgow. | Hamilton, C. G. (Girdwood & Walker), Glasgow. |
| Cooper, W. (Girdwood, Allison & Logan), Ayr. | Hamilton, J. G. (J. W. Jarvie & Co), Glasgow. |
| Couper, W. D. (Moore, Carson & Watson), Glasgow. | Hamilton, R. K. (A. & J. Robertson), Edinburgh. |
| Cullen, F. (Leo Higney), Glasgow. | Harris, Miss P. M. (John Kennedy), Glasgow. |
| Currie, K. (W. J. M. Kean & Co), Edinburgh. | Hay, J. C. L. (Wallace & Somerville), Edinburgh. |
| Davidson, Miss R. (Dewar & Robertson), Edinburgh. | Hodgson, A. E. W. (Howden & Molleson), Edinburgh. |
| Dawe, P. V. (J. & R. Morison & Co), Perth. | Hughes, G. H. (Muir & McIntyre), Glasgow. |
| Dickson, A. (T. C. Garden & Co), Edinburgh. | Hunt, P. F. (Smedley, Rule & Co), London. |
| Dickson, W. A. (Rattray Brothers, Alexander & France), Glasgow. | Hunter, T. J. (Nairn, Bowes & Craig), Glasgow. |
| Donachie, J. J. (Miller, McIntyre & Gellatly), Dundee. | Hunter, W. (W. R. Campbell), Falkirk. |
| Douglas, A. (Ferguson & Vost), Glasgow. | Kinnaird, W. R. (Wilson, Stirling & Co), Glasgow. |
| Doyle, J. A. (Mann, Judd, Gordon & Co), Glasgow. | Kirkwood, J. (Coope & Brothers & Co), Glasgow. |
| Duncan, J. B. (MacEwing, Brown & Co), Glasgow. | |
| Dunlop, S. A. S. (John E. Watson & Co), Glasgow. | |

Laing, A. F. (Dunlop & Murray), Glasgow.
 Laing, G. D. (Chrystal, McIntyre & Co), Glasgow.
 Laird, A. F. (Hunter, Smart & Dickison), Edinburgh.
 Lafferty, R. G. (Davidson & Workman), Glasgow.
 Lambie, W. I. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
 Law, T. P. (Mackay, Irons & Co), Dundee.
 Leah, H. D. (Thomson McLintock & Co), Glasgow.
 Leiper, R. B. T. (Smith & Wallace), Kilmarnock.
 Leslie, C. J. (Moody Stuart & Robertson), Dundee.
 Lindsay, D. I. (French & Cowan), Glasgow.
 Lindsay, T. W. (Miller, McIntyre & Gellatly), Dundee.
 Linklater, J. P. (McFarlane, Hutton & Patrick), Glasgow.
 Loudon, I. A. (Brown, Fleming & Murray), Glasgow.
 Lowden, G. S. (Moody Stuart & Robertson), Dundee.

McAllister, G. B. (Fraser, Lawson & Laing), Glasgow.
 McCrae, A. R. (Wilson, Stirling & Co), Glasgow.
 MacColl, J. S. A. (Thomson McLintock & Co), Glasgow.
 McCredie, W. G. A. (MacLean, Gardner & Aiton), Glasgow.
 McCutcheon, I. C. (McLay, McAlister & McGibbon), Glasgow.
 McDonald, J. (Wylie & Bisset), Glasgow.
 Macdonald, J. A. (Chiene & Tait), Edinburgh.
 McGill, E. W. D. (Wardhaugh & McVean), Glasgow.
 McIsaac, I. A. (Thomson, Jackson, Gourlay & Taylor), Glasgow.
 McKean, J. M. (Rolland & Pomphrey), Glasgow.
 McKechnie, A. (William Duncan & Co), Glasgow.
 McLellan, F. J. (Wilson, Stirling & Co), Glasgow.
 Macleod, I. M. D. (Finnie, Ross, Welch & Co), Glasgow.
 McMillan, A. (Beird & Macmillan), Glasgow.
 McWhirter, R. (Adam Ker & Sangster), Glasgow.
 Marshall, Miss E. C. H. (J. W. Jarvie & Co), Glasgow.
 Mather, J. E. (Kerr, MacLeod & Macfarlane), Glasgow.
 Matheson, H. A. C. Philp & Co), Dunfermline.
 May, W. W. (Davidson, Downie & McGown), Glasgow.
 Melvin, J. D. L. (Mann, Judd, Gordon & Co), Glasgow.
 Mitchell, W. G. K. (Johnston & Smillie), Edinburgh.
 Mitchell, W. G. (W. P. & J. A. Scott), Edinburgh.
 Morrison, D. R. (A. T. Niven & Co), Edinburgh.
 Moss, A. P. (Williamson & Wilson), Glasgow.
 Munro, J. (David Strathie & Co), Glasgow.
 Murdoch, B. M. (Thomson, Jackson, Gourlay & Taylor), Glasgow.

Neil, A. N. (McLachlan & Brown), Kilmarnock.
 Nisbet, J. B. H. (Howden & Molleson), Edinburgh.

Orr, A. P. (Houreston Macfarlane & Co), Glasgow.

Patrick, W. D. (Fraser, Lawson & Laing), Glasgow.
 Pears, R. E. (Lindsay, Jamieson & Haldane), Edinburgh.

Peattie, A. (Thomson McLintock & Co), Glasgow.
 Peterkin, H. R. C. (Dewar & Robertson), Edinburgh.
 Phillips, W. S. (Kidston, Goff & Harvey), Glasgow.
 Pollock, G. J. (J. & J. Gillies), Glasgow.
 Powrie, W. R. (Mackay, Irons & Co), Dundee.

Quinn, H. F. (McIntyre & Rae), Dundee.

Ross, W. M. (Dewar & Robertson), Edinburgh.

Saxon, P. G. R. (J. R. Flockhart & Grant), Aberdeen.
 Shankland, I. W. (French & Cowan), Glasgow.
 Simmers, F. R. (Miller, McIntyre & Gellatly), Dundee.
 Simpson, D. H. (Nairn, Bowes & Craig), Glasgow.
 Smillie, J. (Ramsay Brown & Co), London.
 Smith, D. M. (McIntyre & Rae), Dundee.
 Smith, R. C. (McClelland, Ker & Co), Glasgow.
 Smyth, W. (Moore, Carson & Watson), Glasgow.
 Speed, P. G. (Henderson & Loggie), Dundee.
 Stewart, A. (Turner & Houston), Glasgow.
 Stewart, G. A. (Robert F. Cameron & Forrest), Inverness.
 Stewart, G. M. (McClelland Ker & Co), Glasgow.
 Stirling, G. C. (John M. Geoghegan & Co), Edinburgh.
 Strachan, G. A. G. (Whitson, Wells & Co), Edinburgh.
 Sturrock, G. R. (John M. Geoghegan & Co), Edinburgh.
 Swann, B. C. L. (S. A. Milligan), Exeter.
 Swinburn, H. M. (Wood, Willey & Co), London.
 Syme, J. D. (Mackie & Clark), Glasgow.

Taylor, J. (A. G. Murray & Co), Edinburgh.
 Teare, R. M. (E. W. Ellis & Co), London.
 Thomson, A. R. (Don & Stewart), Dundee.
 Thomson, R. S. (Wilson, Stirling & Co), Glasgow.
 Turnbull, H. L. (Lever, Honeyman & Co), London.
 Turner, T. (A. C. Philp & Co), Dunfermline.

Walkinshaw, D. (Hardie, McFarlane, Carstairs & Mann), Glasgow.
 Ward, J. (Alexander MacLean & Co), Dundee.
 Waters, A. McL. (Houreston, Macfarlane & Co), Glasgow.
 Watson, J. G. (Stevenson & Kyle), Glasgow.
 Welch, I. R. (Graham, Smart & Annan), Edinburgh.
 Whamond, D. McL. (Moody Stuart & Robertson), Dundee.
 Wilson, H. M. (Nairn, Bowes & Craig), Glasgow.
 Wood, J. B. (J. W. Jarvie & Co), Glasgow.
 Wood, W. C. (Jardine, Dunlop & Anderson), Glasgow.

Young, A. (Davidson, Downie & McGown), Glasgow.
 Young, J. L. H. (Graham, Smart & Annan), Edinburgh.
 Young, K. W. (Romanes & Munroe), Edinburgh.
 Yuill, T. (Russ, Ferguson & MacLennan), Glasgow.

INTERMEDIATE EXAMINATION

As a result of the examination held on May 21st and 22nd, 1953, the undermentioned 118 candidates qualified for the Institute's Intermediate examination certificates: their names appear in alphabetical order and are followed by the names of the firm of the masters to whom they were indentured (or assigned).

Adams, M. K. (George A. Touche & Co), London.
 Adcock, J. R. (Peat, Marwick, Mitchell & Co), Birmingham.
 Alexander, J. (Grahams, Rintoul, Hay, Bell & Co), Glasgow.
 Alexander, Miss K. E. (W. A. Findlay & Co), Dundee.
 Ariyanayagam, D. C. (Mann, Judd, Gordon & Co), Glasgow.
 Armstrong, H. F. (Lindsay, Jamieson & Haldane), Edinburgh.

Baker, W. O. (Peat, Marwick, Mitchell & Co), London.
 Black, J. D. L. (A. & C. M. Davidson Smith), Edinburgh.
 Boyle, C. A. (John E. Watson & Co), Glasgow.
 Brown, A. D. (Brown, Fleming & Murray), Glasgow.
 Brown, J. R. (William Bishop & Co), Edinburgh.
 Brown, R. G. (Archibald Sliman & Fisher), Glasgow.
 Brownlee, J. S. (Dickson, Middleton & Co), Stirling.
 Bullock, W. A. (Robert F. Cameron & Forrest), Inverness.

Cameron, J. (Hardie, McFarlane, Carstairs & Mann), Glasgow.
 Carrick, W. L. (Dunlop & Murray), Glasgow.
 Chisholm, W. I. H. (Hardie & Rowan), Greenock.
 Christie, S. (Aikman & Glen), Glasgow.
 Clapperton, A. W. F. (Chiene & Tait), Edinburgh.
 Clark, D. B. (Reid & Mair), Glasgow.
 Clark, J. (McIntyre & Rae), Dundee.
 Cook, M. McN. R. (Russ, Ferguson & MacLennan), Glasgow.
 Cooper, W. M. (William Bishop & Co), Edinburgh.
 Crichton, Q. T. (Moody Stuart & Robertson), Dundee.
 Cunningham, J. D. G. (R. C. Thomson & Murdoch), Dundee.

Dean, Miss M. L. (Fleming & Wilson), Glasgow.
 Dean, R. P. (Peat, Marwick, Mitchell & Co), London.
 Dracup, B. M. (Ferguson & Vost), Glasgow.
 Drummond, R. J. (Martin, Currie & Co), Edinburgh.

Ellis, F. (E. W. Ellis & Co), London.

Ferguson, N. H. J. (Richard Brown & Co), Edinburgh.
 Forsyth, T. W. (G. K. Johnston & Smillie), Edinburgh.
 Fraser, D. A. (Roderick MacLean & Co), Inverness.
 Fraser, W. B. (Neil, Fullerton & Co), Glasgow.
 Friend, B. J. (Peacock & Henry), Glasgow.

Gallacher, H. S. (John M. Taylor & Co), Glasgow.
 Garment, R. G. (Jackson, Taylor, Abernethy & Co), London.
 Gellatly, N. M. C. (T. Hunter Thomson), Edinburgh.
 Gibson, J. L. (Davidson, Downie & McGown), Glasgow.
 Gilchrist, E. J. (A. & J. Robertson), Edinburgh.
 Gillon, A. A. (W. A. Wighton & Crawford), Edinburgh.
 Glanvill, S. L. (Richard Brown & Co), Edinburgh.
 Gordon, S. (F. D. Greenhill & Co), Glasgow.
 Grant, P. (J. R. Flockhart & Grant), Aberdeen.
 Grant, Miss N. E. (Dewar & Robertson), Edinburgh.
 Grant, W. N. (William H. Kennedy), Inverness.
 Gray, D. (Thomson McLintock & Co), Glasgow.
 Guest, A. G. (Graham, Smart & Annan), Edinburgh.

Institute of Cost and Works Accountants**RESIDENTIAL SUMMER SCHOOL**

The fourth residential summer school of the Institute of Cost and Works Accountants is to be held at St Catharine's College, Cambridge, by courtesy of the Master and Fellows, from September 21st to 26th.

Members will arrive during the afternoon of September 21st, and after dinner in Hall, will have an opportunity of making the acquaintance of the other members of their discussion groups.

The technical sessions will begin on Tuesday morning, September 22nd, with a paper by Dr J. M. S. Risk, PH.D., C.A., F.C.W.A., chief accountant, Southern Gas Board, who will deal with the financial control of large-scale organizations, with special reference to public authorities.

On Wednesday, Mr A. D. Coventry, A.C.A., F.C.W.A., will discuss 'Finance and the cost accountant', showing how adequate costing assists the investor of capital. Mr R. Y. Kennedy, C.A., A.C.W.A., cost accountant, Winsor & Newton Ltd, will present a paper entitled 'Comparable costs' on Thursday, in which he will consider the primary forces which make up an industrial unit and suggest a method of collecting costs in such a manner that the costs of different companies or units may be compared; while on Friday an outside speaker, Mr Harold Wincott, Editor of the *Investor's Chronicle*, will contribute a paper.

Group discussion will follow each day's address and later the school will reassemble for the presentation of findings and the speaker's replies to the points raised.

There will be two visits to nearby works, by courtesy of the firms concerned; one party going to Pye Ltd, and the other to Chivers & Sons Ltd.

The proceedings will formally terminate on Friday evening, September 26th, with the annual summer school dinner. As on previous occasions, a number of notable guests from the University, industry, and the profession, will be present.

LIST OF MEMBERS, 1953

A welcome new edition of the List of Members of The Institute of Cost and Works Accountants has now been published. Besides alphabetical and topographical lists of members, the book contains details of the Institute's twenty-two branches, its sub-branches, groups and students' societies, as well as a list of eight 'centres' in South Africa and Southern Rhodesia. Other information includes the names of past-presidents, and the composition of the Council and of the Institute's eight committees.

The Institute of Actuaries

The results of the examinations of the Institute of Actuaries held from April 27th to May 8th, 1953, at London, Birmingham, Dublin, Edinburgh, Liverpool, Manchester, Norwich and York, have now been announced. Twenty-two candidates have qualified for fellowship of the Institute and twenty-two for associateship.

Intestate Succession Tables

As a result of the passing of the Intestates' Estates Act, 1952, new rules of distribution apply to estates of persons who die intestate after 1952. The last previous major change in these rules was effected by the Administration of Estates Act, 1925, which applies in general to deaths occurring after 1925 and before 1953. Even the pre-1925 rules have to be consulted from time to time. Accountants will therefore welcome a folder recently issued by the National Guarantee and Suretyship Association Ltd,¹ which sets out in tabular form the three sets of rules applying to England and Wales. The folder enables one to find out quickly which rule applies in any particular case. The last two pages of the folder are devoted to a short glossary of Scottish legal terms and should dispel a good deal of the puzzlement which frequently arises when a practitioner south of the border has occasion to refer to decisions in the Scottish Courts.

Accounting Hall of Fame

At a session of Ohio State University's Fifteenth Annual Institute on Accounting, held at Columbus last May, four new names were installed in the University's Accounting Hall of Fame which was established in 1950 to honour Americans for outstanding contributions to the profession.²

One of the names is that of Mr T. Coleman Andrews, C.P.A., who was President of the American Institute of Accountants in 1950-51, and who will be remembered by members of the profession in this country as a delegate to the Sixth International Congress on Accounting and the author of one of the Congress papers on 'The accountant in practice and in public service'. As reported in our issue of January 24th, Mr Coleman Andrews was appointed Commissioner of Internal Revenue by President Eisenhower at the beginning of the year, and so

¹ Head Office: 17 Charlotte Street, Edinburgh; London Office: Granville House, Arundel Street, Strand, WC2.

² See *The Accountant* dated April 29th, 1950.

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became the first certified public accountant to hold this office.

The three other accountants to be similarly honoured by Ohio University all receive posthumous election, they are the late Mr A. E. Andersen; the late Colonel C. E. Sprague, author of *The Philosophy of Accounts* and *The Accountancy of Investments*; and the late Mr J. E. Sterrett, a former partner in the Philadelphia firm of Price Waterhouse & Co. Accountants elected to the Hall of Fame in preceding years include Messrs G. O. May, R. H. Montgomery and W. A. Paton, in 1950; Messrs A. L. Dickinson and H. R. Hatfield in 1951; and Messrs E. W. Sells and V. H. Stempf in 1952.

Return of Rates, 1953-54

The eighth annual return of rates to be compiled by the Institute of Municipal Treasurers and Accountants has now been published¹; and gives details of the rates levied in England and Wales, for 1953-54, by all county boroughs (83) and metropolitan boroughs (28), together with a large and representative selection of non-county boroughs and urban districts.

The upward trend in rates still continues, in fact in the opinion of a speaker who addressed the Institute's recent annual conference at Scarborough, they will have increased by an average of 9s in the £ within the next ten years. There is added significance in this forecast on examination of the table given below of the average rates levied over the past three years:

	1951-52		1952-53		1953-54	
	s	d	s	d	s	d
County Boroughs ..	20	1	21	0	22	9
Metropolitan Boroughs ..	17	10	18	4	20	4
Non-County Boroughs ..	20	4	21	1	23	3
Urban Districts ..	20	0	21	1	23	4

Of the county boroughs, the return shows Merthyr Tydfil to have the highest rates with 30s 9d, Bourne-mouth and Eastbourne, each with 15s, the lowest. In the Metropolitan boroughs, Stepney and Bethnal Green have the highest, each with 23s 8d, and Westminster the lowest with 17s 4d.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 14TH, 1928

Extract from a letter to the Editor

Accountants and the Public

The average Chartered Accountant of to-day has been educated at a cost of £500 to £1,500 (if at a Varsity). He has to pay anything from £100 to £300 for articles, and receives a salary which is nominal or even nil.

In view of these facts is it fair or reasonable that another boy whose education has cost nothing, who

¹ The Institute of Municipal Treasurers and Accountants, Buckingham Place, London, SW1. Price 6s post free.

has received no training, and who has perhaps passed examinations which are not above suspicion, shall be expected to join the profession on equal terms?

The medical and legal professions do not allow it, and even the dentists have been driven to legislation.

What some of your correspondents will not realise is that man for man the articulated clerk of a C.A. is far better for the work than one who has not had the advantages of education and training.

Clients want something more than skill in figures.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 13TH, 1878

"ACCOUNTANT" SITUATION LIST

Replies to be addressed to the Number stated, at the Accountant Office, 62 Gracechurch-street, E.C.

NO.	DESCRIPTION.	EXPERIENCE.	SALARY.	AGR.
20.	Auditor, Bankruptcy, &c.	8 years	£100 per annum	35
21.	Accountant, Commercial Accounts	5 "	£85 "	21
23.	Clerk, Shorthand	3 "	£100 "	25
30.	"	3 "	£100 "	28
42.	Auditing, Book-keeping, double entry, Bankruptcy, Liquidation	20 "	£150 "	37
43.	Bankruptcy, Audits, and General Accountancy	18 "	£90 to £100	33
44.	Good Accountant and Correspondent	25 "	£250 to £300	45
45.	Book-keeping, double entry, German, French and English	3-4 years	£120	22
46.	Book-keeping, single and double entry, Correspondent	Scholastic	£65	29
47.	Understands Buying and Selling of Corn, Hay, Stock, and Malting	8 years steward	—	30
48.	Accountancy, Book-keeping	—	Open to offer	42
49.	Book-keeping, single and double, Correspondence, Shorthand	13 years	£100 per annum	27
50.	Auctioneers' Clerk	8 "	£1 per week	25
51.	Shorthand, French	—	Nominal	28
52.	Auditing and Bankruptcy	10 "	£2 10s. per week	30
53.	Clerk to Accountants	—	£70 per annum	20
54.	Accountancy, double entry, and Correspondence	26 years	£150 to £200	48

Our Contemporaries

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (June.)
'Accounting Research: An Analysis of Presentation Techniques in Annual Financial Reports.'

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (June.)

ANNOTATED TAX CASES

Edited by ROY BORNEMAN, Q.C.

Published on the first Saturday after the 20th of each month. Reports of Income-tax, Sur-tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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The Accountant

ESTABLISHED 1874

JULY 18TH, 1953

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CONTENTS

Leading Articles	Page
Summer School	61
The Finance Bill - VIII	62
Special Articles	
The Lawyers' Return by J. C. Peirson, F.C.A.	64
Framework of a Company Audit by Howard Goodwin, A.C.A.	65
Six Months in Industry by Michael G. Frampton	67
North American Commentary - XLIV by Kenneth F. Byrd, M.A., B.SC (Econ.), A.C.A., C.A. (S.A.), Professor of Accounting, McGill University, Montreal	68
The Accountant and the Farmer - III by R. W. Smith, O.B.E., T.D., F.C.A.	70
Weekly Notes	74
Finance and Commerce	76
Reviews	78
Correspondence	79
The Institute of Chartered Accountants in England and Wales	
Coronation Reception	83
Meeting of the Council	85
Notes and Notices	
Personal - Professional Note - Obituary - Board of Trade's 'C.R.E. Industries Branch' - Incorporated Accountant's appointment in Ceylon - The Association of Chartered Accountants in Egypt - The Preston and District Chartered Accountant Students' Society - The Leicester and North- ampton Chartered Accountant Students' Society - Actuaries' Investment Index - Account- ants' Fees and Profits, by R. Sproull, C.A. - Our Contemporaries - Twenty- five Years Ago - Seventy-five Years Ago	86

Supplement

Photograph: Some Personalities
at the Summer Course of The
Institute of Chartered Account-
ants in England and Wales.

SUMMER SCHOOL

THE summer school has become quite a distinctive feature of the professional calendar and the seventh of the series promoted by The Institute of Chartered Accountants in England and Wales, held last week-end at Christ Church, Oxford, was, like all its predecessors, eminently successful. About one hundred and seventy members took part and their serious morning and evening deliberations were pleasantly lightened by afternoon excursions and sporting interludes. The subjects chosen for discussion - apart from one paper on taxation - were concerned with the organization of the profession rather than with any practical aspects of its work. It may have been thought, beforehand by some, that the first two papers - dealing, respectively, with the chartered accountant in practice and the chartered accountant in industry - were redundant after the full discussions on these themes which had taken place at the third and fourth business sessions of last year's International Congress on Accounting. The long and animated arguments which they evoked, however, showed that the subjects are sufficiently large to be debated wherever two or three accountants are gathered together. The fourth paper - on the organization and activities of the accounting profession in the United States, given by MR JOHN L. CAREY, the executive director of the American Institute of Accountants - was of especial interest, both for the insight it gave into the principles and practices of the profession in the United States and for the opportunities it afforded for constructive comparisons of conditions in the two countries. MR CAREY generously acknowledged the debt which the accounting profession in the United States owed, in its earliest days, to English and Scottish chartered accountants. Only the most insular would deny that we in this country have in turn much to learn from the matured professional techniques of the Americans.

The school 'broke up' on Wednesday afternoon and its members, refreshed mentally and physically, have returned to their offices and are even now, presumably, looking upon their old surroundings and difficulties in a new light. The President said, in his foreword to the programme, that the course was designed to enable members to meet in an informal atmosphere to discuss important matters relating to the profession. In this, thanks to the efforts of everyone concerned from the lecturers down to the room scouts, it can be said to have succeeded splendidly and it is good to reflect that the wider benefits from it - by means of the subsequent reproduction of the papers and by district society discussions - are still to be derived.

THE FINANCE BILL - VIII

THIRD READING

THE Report stage of the Finance Bill was completed on July 9th and the Bill received its third reading on Monday.

Just before the close of the Report stage, the Government accepted an amendment of clause 26, which clause allows iron and steel companies owned by the Iron and Steel Holding and Realization Agency to make distributions without incurring additional profits tax liability, provided that the Treasury is satisfied that the distribution is made for the purpose of facilitating the performance by the Realization Agency of its functions in returning the industry to private ownership. The clause defined 'distribution' as having the meaning assigned to it by Section 36 of the Finance Act, 1947. This definition includes, in the case of director-controlled companies, excess directors' remuneration and loans, where the recipients are members of the company (Section 36 (1) (c)). The amendment excludes this kind of distribution from the benefit of the clause.

Earlier, MR G. P. STEVENS, M.P., F.C.A., moved a new clause to increase the maximum earned income relief from £450 to £1,000, that is, to extend the range of the relief up to total earnings of £4,500. Notwithstanding MR STEVENS' persuasive speech, the FINANCIAL SECRETARY TO THE TREASURY stressed that the change would cost some £17 million a year which, on top of the concessions already given, was more than the country could afford. He refused to be drawn as to the Government's intentions on the matter next year.

The topical device of reducing income-tax liability by bringing about the application of the commencement and cessation provisions to a trade, was the target of a long and complicated new clause proposed by MR ERIC FLETCHER. It confined itself to the case of a body corporate going into liquidation and selling its undertaking to another body corporate

'the membership of which is the same or substantially the same as the membership of the first body corporate'.

Under the proposed clause, if the Inland Revenue were satisfied that one of the main purposes of the liquidation and of the sale was to avoid or

reduce liability to income-tax, they could apply to the High Court before the dissolution of the first body corporate, whereupon the dissolution would be held up and the Court could declare the sale void for all purposes. It is perhaps not surprising that the Government decided that the clause as drafted would not work satisfactorily.

The ECONOMIC SECRETARY TO THE TREASURY, while opposing the clause, did express the Government's disapproval of the device. He said:

'We are studying deliberately and carefully, methods of dealing with the problem. I hope that what I have to say will be noted. I hope that no reputable firm or responsible professional adviser will regard this type of device as the sort of thing they should adopt. I say that quite clearly. . . .

'We are studying carefully what should be done. I do not want to say too much about what we are likely to do because in trying to tackle questions of tax avoidance it is not always wise to give too much notice in advance of what we intend to do . . . my right honourable Friend is keeping a careful eye on the position and will not hesitate to take action - if necessary drastic action - if he considers that the state of the public revenue calls for it.'

It is not very satisfactory to try to bolster up the public revenue by appealing to the taxpayer's nobler instincts; such a method merely results in the willing horse bearing more and more tax and the less willing bearing less and less.

Whether the device is as reprehensible as it has been described is highly arguable. The net effect of it is to ensure that the company is assessed to income-tax on the same basis on which it is assessed to profits tax, namely, on the actual profit of the period covered by the assessment. It is difficult to imagine a fairer basis than that. The basis was strongly canvassed before the Royal Commission on Taxation and it was resisted only on the grounds of administrative convenience. It was rejected by the first Millard Tucker Committee for the same reason. Perhaps the most glaring defect of the present basis is the continuance of high income-tax assessments after the trader's profits have fallen sharply and he is *ex hypothesi* in financial difficulty. During the recent war special relief was awarded on this account. If the State could afford such relief in wartime, it is at least arguable that it could be given

in time of peace. At present, however, the only way for such a trader to have his tax assessment put on a realistic basis is to precipitate the application of the cessation and commencement provisions.

Judging by the debate in the House of Commons, the primary purpose of a trading company, in the eyes of many, is to produce tax for the Revenue. One member regarded the device as enabling people to keep on taking money out of industry, which industry cannot afford. Of course, taken by itself, the device has the opposite effect of keeping in the industry money which would otherwise go to the Revenue.

The fact that on a reconstruction where the membership remains the same there is little effective change has never prevented the Revenue from exacting the last ounce of advantage from the notional cessation and commencement. Those familiar with the case of *United Steel Companies Ltd v. Cullington* ([1940] 19 A.T.C. 132) will remember that on an amalgamation the Revenue strenuously resisted the claim to carry forward the losses and accumulated wear and tear of the two amalgamated companies. The same applies to many other transactions carried out by taxpayers which are found afterwards to have had a disastrous effect for taxation.

It has been a commonplace of the Chancery Division of the High Court in recent years to sanction arrangements in relation to trusts when the only object of such arrangements was the avoidance of estate duty prospectively payable.

The warning given by the ECONOMIC SECRETARY TO THE TREASURY has added considerably to the already numerous uncertainties of taxation. Companies which wish to carry out a reconstruction, for whatever purpose, will now be in the dark as to possible retrospective legislation which will impose some swingeing additional taxation on them.

The Opposition made a further attempt to introduce a clause empowering tax Inspectors to require claims for expense of entertainment and travelling to be supported by an affidavit to the effect that after due and proper inquiry the deponent is satisfied, to the best of his knowledge, information and belief, that the expenses are properly admissible. The FINANCIAL SECRETARY TO THE TREASURY said the Government was in the unusual position of finding the Opposition trying to force additional powers upon it.

There was no reason to assume that the abuses

complained of by the sponsors of the clause were widespread, but if they were, the better way to deal with them was by adequate provision of Revenue staffs. He said that to clarify the legal position in relation to expenses claims the Inland Revenue had evolved a new form, No. P11(D), the purpose of which was to make quite clear to the persons concerned the precise legal position of the duties imposed upon them. The new clause was rejected. A clause to lower the age limit for age relief in the case of spinsters and widows from 65 to 60 was rejected on the ground that the matter was being considered by the Royal Commission on Taxation.

Replying to the debate on the third reading the CHANCELLOR said it would be disastrous if the conception got about that there was a great deal of tax evasion. Frankly, there was not, but he undertook to take every step necessary where evasion was taking place.

We regret that an error occurred in our article last week. The increase in permitted emoluments of apprentice children for the purpose of child relief is from £26 to £52, not to £85. Consequently, the anomaly we mentioned continues, in that the child receiving full-time education is permitted to have an income up to £85, earned or unearned, whereas the apprentice may only earn £52.

Although so much of the Report stage of the Bill was devoted to income-tax, other matters were not neglected. The Government introduced a new clause designed to secure that an agricultural or forestry tractor does not lose the advantage of the low rate of licence duty by reason of the fact that it has mounted on it some form of agricultural implement.

Another Government-sponsored clause which was adopted deals with customs duty on tapes, wires, disks and other articles on which sound has been recorded. The effect of the clause will be to restrict the *ad valorem* duty to the value of the material, without regard to the sound recorded on it. This meets the practical difficulties facing Customs officers when they try to put a value on a piece of wire on which all kinds of things may be recorded. The new clause cuts the Gordian knot at some cost in revenue but effects a great saving in administrative cost; it does not apply to goods produced in quantity for general sale.

THE LAWYERS' RETURN

SECTION 22, INCOME TAX ACT, 1952, AND FORM NO. 8-2

by J. C. PEIRSON, F.C.A.

SECTION 22 of the Income Tax Act, 1952, which, like the rest of the statute, is of course only a re-enactment, boils down to this:

Every person who is in receipt of any profits or gains arising from any of the sources mentioned in this Act belonging to any other person who is chargeable or would be so if he were resident and not incapacitated, shall, whenever required, deliver a list in the prescribed form containing, (a) a statement of all such profits or gains; (b) name and address of person to whom same belong; (c) a declaration whether such person is of full age, married woman, resident, or incapacitated.

The prescribed form is No. 8-2. It was issued to solicitors sparingly before – and not at all during – the last war, but is likely to appear with growing frequency from now onwards; there is always the possibility that it may be served generally upon all solicitors though this is not the present practice. When it does appear, it is not unlikely that the solicitor may seek his accountant's advice about it.

Scope of Form

Reason for rejoicing may perhaps be found in the restrictions applied to the very wide field of the section by the notes on the form; these eliminate taxed income and income of less than £15 in all belonging to any individual. One day the available power may be exercised, for sur-tax purposes, of demanding particulars of taxed income as well: but it has not yet come to that.

At first sight, the scope of the form remains enormous. A casual glance may create the impression that the solicitor is merely being put in the position of the banks, the objective being deposit interest. This is not so, the latter being covered by Section 29 of the Act, while Section 22 embraces not only bank interest but all the other headings referred to in note (ii) on the form, together with unspecified categories which, officially, are only limited by the form to untaxed income of more than £15. The specified headings are, broadly, (a) Case III interest; (b) income arising abroad; (c) excess rents, furnished lettings, wayleaves and the like; and (d) copyright royalties. Other items covered by the section and not excluded by the form are trading profits, which might be inherent in transactions between one

client and another, or consist of a client's persistent dealings in real properties; commissions of several kinds which might be collected for clients; and payments for casual services. The liability to tax of several such items may well, incidentally, be a question which the clients concerned would wish to dispute for themselves or through their accountants.

A meticulous solicitor faced for the first time by this form is liable to embark upon, or delegate, the task of looking at every credit entry in his clients' ledger for the fiscal year in order to answer the questions:

(i) Do we know the nature of this money?

(ii) Is it income within the terms of the form?

He must, in fact, do something like this, but it will ease his burden if he substitutes thus:

(ii) Is it income which the Revenue expects us to return?

It is not easy to say in every case what is or is not expected, but generally speaking he may confine himself to the specified headings, and from them he may omit the item excess rents, upon which point the Revenue came to an agreement with the Law Society in 1950; even so, these should be returned in the rare cases where the solicitor has the entire management of an estate and does not handle the owners' tax returns. It is understood that such things as property dealings need not be shown and these exceptions may be taken to indicate a reasonable attitude generally on the part of the Revenue.

However, it should be remembered that the mere knowledge that an item is returned by the client personally or through another agent does not excuse the solicitor; only when he has himself submitted such other returns is he excused. There are also cases where he must return an item although it has not passed through his hands; this may often happen where the solicitor as trustee has authorized payment of income direct to a sole life-tenant, and in such a case he must return any untaxed interest which forms part of that income. Further, it is thought that when form No. 8-2 is addressed to his firm, each partner must consider his personal trusteeships; though Section 22 (2) is not altogether clear about this, referring to 'any person acting jointly with any other person'.

In many instances all this will involve, in spite of the above restrictions, considerable and unrequited outlay of time and trouble by the solicitor. It is, in fact, but one aspect of the broad Treasury policy to which we have now resigned ourselves, that of almost forcing business people, through P.A.Y.E., purchase tax and the like, to do the work of civil servants.

But the application of this section to solicitors has a more serious aspect. It is often argued on behalf of the Revenue that this or that statutory power must be available as an ultimate lever, and that its officers can be trusted to wield such powers with the utmost discretion or not at all. Such arguments are unconscious humbug, and make for dangerous legislation; for sooner or later powers of this kind are used to the full.

The power given by Section 22 and its predecessor has been used to extract from solicitors information about their clients, without the clients' consent. The Law Society has taken counsel's opinion on the question of privilege and was advised that any such privilege was overridden by the statute. Solicitors cannot refuse to make the return.

It would be wrong to criticize the Society, who may have made prodigious efforts, though unsuccessfully as yet. But it must seem strange that when banks were forced to give very limited information, there was a considerable public outcry; whereas little has yet been said about solicitors, whose business is far more confidential and from whom a far greater variety of information is exacted. It may be argued that the only sufferer is the tax-dodging client; but even to ensure this may require vigilance when completing the form.

Official inquiry can be a nuisance to the innocent as well as a nightmare to the guilty. The form requires the solicitor to state whether or not his client is resident here; and to commit himself as to the ownership of the income in question; in both cases the obvious answer can very easily be wrong, and although the Revenue will not ultimately rely upon the form alone, unnecessary inquiries may be started.

Be that as it may, the main question is one of principle, and the fault lies with the law as it stands, rather than its application by the Revenue.

FRAMEWORK OF A COMPANY AUDIT

by HOWARD GOODWIN, A.C.A.

THIS is the framework of a system for doing an audit of a limited company, additional detail being added, where necessary, for each individual audit. The system of audit is divided into five sheets which follow on in a logical sequence.

The 'P' against some items signifies that they are required for the permanent file.

Sheet 1 is sent to the secretary of the company before the audit starts, with a request for the preparation of the information required, with deletions where necessary. The auditor, on arrival, ticks off the items on a duplicate of sheet 1 and proceeds to work through sheet 2.

On completion of this operation, everything is ready for the audit on sheet 3. The last three items are listed in detail on sheet 3a. A tick is placed in the spaces where there is no dash.

Sheet 4 ties the loose ends up and if it is completed, the previous sheets must have been completed also.

The beauty of the system is that you endeavour to do the audit in its logical sequence - you do not waste time looking for information at inopportune moments. If the secretary has not

completed sheet 1 you are in a better position to ask for additional remuneration because, by sending the sheet, you are putting on record the presumption that that is his work and not yours. Finally, the system separates the work of routine checking (sheet 3a) from the auditing which requires greater experience (sheet 3). It also separates both these from the preliminary collecting of information (sheets 1 and 2) and the final dotting of i's and crossing of t's (sheet 4).

Sheet 1

PRE-AUDIT INFORMATION

Name

Year ended.....

A. First year (new business)

- | | |
|--|----|
| 1. Two copies of the memorandum and articles | P. |
| 2. List of books kept and by whom | P. |
| 3. „ shareholders | P. |
| 4. „ directors | P. |

B. First year (existing business)

- | | |
|--|----|
| 1. One copy of the memorandum and articles | P. |
| 2. List of books kept and by whom | P. |
| 3. „ shareholders | P. |
| 4. „ directors | P. |
| 5. Copy of last year's accounts. | |

C. *Every year*

1. Copy of minutes of all meetings held during the year P.
2. List of changes in shareholders and directors P.
3. Schedule of debtors.
4. " creditors.
5. " work in progress.
6. " stock.
7. " closing reserves and prepayments.
8. " trial balance.

Sheet 2

PRE-AUDIT INVESTIGATION

Name

Year ended.....

1. Sheet 1 information obtained.
2. Read sheet 1 information.
3. Investigate internal check (and write report) P.
4. Obtain signed statement of stock and cash takings.
5. Write to bank (and hire-purchase company).
6. Prepare schedule of directors' fees.
7. " " legal fees.
8. " " charitable subscriptions.
9. " " income-tax capital allowances.
10. " copy of taxation accounts.

Sheet 3

AUDIT WORK

Name

Year ended.....

1. Investigate capital in revenue.
2. " insurance policies.
3. " directors' loan accounts.
4. " receipts other than sales ledger.
5. " purchases other than purchases ledger.
6. " associated parties sales and purchases.
7. " stamp-book.
8. " cash receipts and payments.
9. " journal entries.
10. " national health cards.
11. " bank reconciliation statement.
12. *Verify assets*
 - (a) Deeds of properties.
 - (b) Log-books of transport.
 - (c) Stock.
 - (d) Work in progress.
 - (e) Accounts receivable.
 - (f) Cash.
13. *Verify Liabilities*
 - (a) Accounts payable.
 - (b) Hire-purchase company.
 - (c) Bank.
14. Postings per sheet 3a
15. Additions " 3a
16. Vouching " 3a

Sheet 3a

POSTINGS, ADDITIONS AND VOUCHING

Name

Year ended.....

Postings

	Cash-book	Sales day-book	Purchase day-book	Petty-cash-book	Wages book	Salaries book	Journal	Creditors	Debtors	Trial balance
Nominal ledger										
Sales ledger										
Purchase ledger										
Cash-book										
Stamp-book										
Bank sheets										
Paying-in book										

	Additions	Vouching
Nominal ledger		—
Cash-book		
Petty-cash-book		
Wages book		
Salaries book		
Sales day-book		
" ledger		—
Purchase day-book		
" ledger		—
Journal		—
Debtors		—
Creditors		—
Stamp-book		—
Trial balance		—

Sheet 4

POST-AUDIT WORK

Name

Year ended.....

1. Report to directors if necessary on internal check.
2. Do income-tax computation.
3. Number of copies of accounts required.
4. Notes on balance sheet.
5. Check to see all previous sheets are completed.

SIX MONTHS IN INDUSTRY VALUABLE TRAINING FOR AN ARTICLED CLERK

by MICHAEL G. FRAMPTON

Under the provisions of bye-law 58 (c) of the Institute, an articulated clerk may spend periods not amounting to more than six months in all in such industrial, commercial or other suitable organization as the Council may approve and subject to such conditions and control as the Council may impose or exercise. The author of this article is an articulated clerk and here gives his opinions of the value of this part of his training.

AS an articulated clerk who has just completed a period of six months with an industrial concern, I want to recommend this training to others.

I can appreciate that any principal may view this interruption with some apprehension for it is difficult to run an office with odd breaks such as these, though it may be said with equal validity that all principals want their pupils to be a credit to the profession, apart from being examination successes.

Whether one decides to commence in practice or to go into commerce, a knowledge of commercial practice is always necessary. In professional practice, clients often require advice on matters ranging from office and factory organization to costing and stock control, and though the chartered accountant entering the profession has been examined in most of these subjects, he has probably not seen how text-book methods are put into practice.

On the other hand, if commerce is the choice of the newly qualified accountant, he will feel ignorant on entering a large industrial concern, being unaware of how the work of other departments is correlated with that of his own.

Limited Choice

Finding a firm that will tolerate the possibility of an articulated clerk's making a nuisance of himself is a matter for private arrangement. Perhaps this is where many hopes fade, for in order to obtain a variety of sections to study, one's choice is really limited to fairly large manufacturing concerns.

It is important that the training is undertaken at a carefully selected time during articles: the period which appears to be most suitable is shortly after sitting the Intermediate examination. The student has then acquired a good knowledge of trade from the auditor's point of view, he has studied a little costing theoretically, is under no imminent danger from further examinations and

is therefore able to devote more time to reading books and reports which relate to his work.

I have been fortunate enough to spend six months in three factories of a large group of manufacturing companies. Originally, my main reason for wanting to spend this time in industry was that I found it difficult to appreciate how the generalizations on cost accounting – which of necessity must be made in text-books – are really applied; a considerable part of my time was consequently devoted to the cost office.

Working with the Cost Clerks

A general idea of the methods adopted for breaking down expenditure into cost centres was obtained by working with the cost clerks. This analysis was used in all three factories, but varying forms of standard costing were employed. Reports prepared by cost consultants and the group directorate of costing were read with a view to understanding the main objects which the systems were designed to achieve. The unforeseen troubles of practice were discovered at each stage of the systems by helping the clerks with their work – though no doubt this assistance often hindered them as well. Through discussion and examination of the reports submitted to management, I acquired a familiarity with most of the matters to be considered on interpreting results.

Numerous Departments Visited

The departments that I visited for a few days or a few hours are too numerous to mention in detail. Hardly a single department was omitted, for my intention was to obtain a general idea of the whole organization. In some sections, such as the time-study section and the registrar's office, it was possible to spend perhaps only half a day, either because there was insufficient time at my disposal or because the subject was too remote from accountancy to merit my further attention. In these departments no help was given in the routine work and my time was restricted

to hearing an explanation of daily procedures.

One of the most enlightening sections was production control – involving planning, progress and material control. Here the subject has a large scope and cannot be mastered in anything short of many months, though a few days did suffice for me to acquire a good idea of what work is done. Towards the end of my course I was allotted an interesting assignment which involved examination of the stores control and making a report suggesting improvements for streamlining the system. Though the matter was small, it did provide some useful experience in investigation.

Assessment of Learning

Having completed this time, I pause to assess what I have really learned. Can I now install an intricate system of standard costing, or act in the capacity of a cost accountant? Probably not. It becomes more and more obvious that costing is a specialized field which is rapidly leaving the layman behind.

Though I could perhaps apply a form of standard costing in simple circumstances and after long consideration, the more desirable achievement is that I can now examine cost statements

with a knowledge of the work behind them and of their advantages and limitations.

A False View

Sceptics may argue that there is no time to spare during articles and that this work can be done more profitably afterwards. In my opinion this is a false view. It cannot be expected that a chartered accountant will be prepared to submit himself to tuition in basic methods by numerous departments; once qualified, the opportunity is lost. For, although the qualified accountant will be able to specialize, he will not gain familiarity with the practical workings of many sections except after some considerable time.

The other major objection to this period of training arises from those who think that such a course is merely frivolous and is a good excuse for a six months' holiday. I do not deny that it is enjoyable, but the demands on the articulated clerk in the course of this period are as great as at any time during work in the professional office. The new facets of accountancy which are continually being encountered necessitate a great deal of background reading; and rising at 6.30 a.m. would spoil any holiday.

NORTH AMERICAN COMMENTARY—XLIV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
Professor of Accounting, McGill University, Montreal

Journal of Accountancy,
New York, May

Restriction of the term 'Audit'

DISCUSSING the present-day tendency to speak of 'efficiency audits', 'management audits', etc., where the evaluation of abstract qualities is involved, the editorial considers the possibility of restricting the word 'audit' to independent examinations of accounts and supporting data. It decides that there is little hope of success and suggests that this type of audit might be distinguished by some kind of adjective. The term 'opinion audit' is said to have gained some currency among certified public accountants but is thought unlikely to convey any sharp distinction to the public.

International Auditing Standards

The editorial welcomes the plea of Mr J. Kraayenhof, a past President of the Netherlands Institute of Accountants, as published in *The Accountant* of March 14th, for greater uniformity

in international auditing standards. With the lessening of international tension there is likely to be a greatly increased flow of capital between nations, with rapid acceleration of international trade and commerce, says the editorial, and internationally intelligible financial statements would greatly facilitate these developments.

Depreciation of Emergency Facilities

Mr Paul K. Webster, C.P.A., discusses the American Institute's new research bulletin, No. 42, to which reference was made in North American Commentary XLI. The bulletin recommends that, if normal depreciation charged in the financial accounts is much less than is allowed for tax purposes, provision shall be made for the resulting deferred income-tax payable in the post-amortisation years. Certain rulings of the Inter-States Commerce Commission will mean, he thinks, that most railroad reports are likely to be based on provision for normal depreciation without such adjustment for deferred income-tax.

THE ACCOUNTANT AND THE FARMER—III

FARM ACCOUNTS ANALYSED: SOME SPECIAL FEATURES

by R. W. SMITH, O.B.E., T.D., F.C.A.

MY previous articles advanced the case for greater co-operation between the accountant and the farmer; in the second article I attempted to show what is basically required in the farmer's accountancy if he is to be adequately served. Fundamentally, of course, there can be no difference in principle between farm accountancy and that which serves any other trade or business, but enough has already been said to show that many special features exist which are not found in other occupations, at least, not to the same extent.

In this article, therefore, some of these special features will be described in greater detail, with emphasis on the kind of information which the farmer will require, and the special treatment with which the accountant will have to be familiar.

Personal Benefits for the Farmer

One aspect which has in recent years invoked much comment and discussion both within and outside the industry, is the personal benefit which the farmer derives from an occupation which offers facilities which do not exist to the same extent in most other occupations. Those who speak of the industry as being 'feather-bedded' refer to the advantages which include the opportunity of charging-up in the business accounts rent, rates, lighting, heating, water and repairs of the private dwelling, use of farm labour for domestic purposes, use of car, and above all, the unlimited quantities of food of all kinds which is supposed to be consumed by the farmer and his family; to say nothing of the wages payments to his wife and family. It is, perhaps, as well to have this in correct focus and to see what it all does amount to.

First of all so far as establishment charges and repairs are concerned, there is a well-defined proportion which has long been accepted as a reasonable division between business and private use in the ratio of 1 : 2. When it is considered to what extent the farm-house is used as business premises this proportion is not by any means over-generous. The farmer and his wife are 'on the job' for twenty-four hours a day, seven days a week — there are no office hours. Part of the house may be set aside as an office and other accommodation may be used for storage of

pilferable commodities, for interviews and meetings, to accommodate seasonal labour and for other purposes too numerous to mention. It would be impossible to find a farm where at some time or other farm labour had not been used for domestic purposes, but this is very different from suggesting, as so often happens, that labour is kept primarily for domestic use. The size of the farmer's labour bill today is such that he cannot afford to be extravagant in this respect. His labour is better employed in producing revenue than in trivial domestic duties, on the other hand what is the financial factor involved in finding a task for a hand who would otherwise be unavoidably idle for a part of his day? The art of successful farming lies in full productive employment of the labour force, but this is a problem in which weather sometimes takes a hand and on those occasions there will be opportunities for using labour on otherwise unproductive work.

The Farmer's Car

The farmer's car is another source of much ill-informed comment, especially since the recent attempt on the part of the Revenue to get the courts to define a limit to the expenditure. The majority of farmers have little time for personal leisure and the element of private motoring and travelling must always be very small. He is indeed a fortunate farmer who can take a holiday for any length of time except at a period of the year when motoring is anything but a relaxation.

It is still said in some parts of the country that the successful farmer can only operate on horse — it is certainly true that a proper personal supervision can only be done every day in this fashion. The personal element of car or horse is bound to be small.

Personal Consumption

There is finally this question of personal consumption to assess. Much will depend on the type of farm, but in a general mixed farm there is obviously greater scope for personal benefits than on others. The question to be decided is on what basis this calculation is to be made. Opinions differ as to whether this should be at cost of production or selling price, for the latter will sometimes be less than the former and may be nothing at all if there is no market. There

would seem to be little justification for expecting the farmer to evaluate his own consumption of a particular item at the top market price if the cost of growing were only a fraction; on the other hand is he to be charged at cost price if unsold produce of the same kind is being thrown away for lack of market buyers? Common sense suggests that the lower price is the right answer.

This subject has been treated at some length if only to try and dispel much of the misconception that exists. The accountant's duty is to try and make a fair assessment of what adjustments are necessary in order to show the true results of trading. Experience shows that although the Inspector of Taxes may be searching in his inquiries on this account, his treatment is almost invariably fair and reasonable if he has the facts. It is also true to say that in the large majority of cases the adjustments that require to be made are very modest, and it is the exception rather than the rule to find the farm that is being conducted with a deliberate object of whitewashing as much personal expenditure as possible.

The Week-end Farmer

Perhaps this is a convenient point to say a few words about that modern phenomenon the 'city farmer' or the 'week-end farmer' as he is sometimes called. He is popularly imagined as a man who is fabulously wealthy, enjoying a personal income of at least £20,000 per annum, whose knowledge of agriculture is nil, who ruins good land by putting it to the wrong use, who poisons the labour market in his own area, who keeps several cars registered as tractors, and who spends his week-ends in a large country (farm) house living entirely on illegally slaughtered pigs and sheep. Examples of abuse can of course be found, but to imagine that it is practised to a great extent is to insult the intelligence of the Inland Revenue and the county agricultural committees. Moreover, a person who will operate in this way as a farmer is as likely as not to indulge in similar activities in other occupations. It is, therefore, a pity that the wealthy agriculturalist is often the victim of this type of attack.

There are undoubtedly many wealthy owners of farms whose activities are conducted on a somewhat liberal basis but let it not be forgotten that many of these men are enthusiasts or idealists who are farming land which even in the most experienced hands is unlikely ever to be farmed at a profit, and but for them, would probably go out of production altogether. When the comment is made that they do it at the expense

of the community because they have a tax rebate at the top rate, let us also remember that they provide employment, a market for equipment, and work for many other trades; they do get some measure of production from uneconomic land, thus, much of what they recover from the exchequer goes back indirectly.

It is undoubtedly true that but for high rates of taxation this type of farmer would largely disappear, but he is not the drone that many suppose him to be. The history of the agricultural industry gives many examples of successful experiments to improve the economics of farming which could only have been initiated by the owners of exceptional capital resources. If such activity succeeds in bringing poor land back into cultivation there is every reason for giving it the right sort of encouragement. There is quite obviously a useful field of activity here for the accountant whose guidance on costs and financial information is vitally necessary if such experiments are to be successful. The farmer who is operating at a satisfactory margin of profit might well observe with some justification that he does not need the services of an accountant to dissect his figures and to advise him how to improve his results, but where there are continual losses or a narrow margin of profit, a proper diagnosis of the state of financial health becomes essential.

At a time when we are in need of the greatest possible production of home-grown food and when we have the astonishing paradox of the continual requisitioning of good farm land for other purposes, everything possible should be done to encourage those who are prepared to risk considerable losses in order to bring unproductive and marginal land back into full production.

It may be thought that I have digressed too far from my subject in the last few paragraphs, but just as the industrial cost accountant can help ailing industry back on to a paying basis, so too can the accountant make a similar contribution in the sphere of agriculture. Let us therefore see what kind of information will be required by the farmer from the accountant and in the final article see how this information is to be applied to achieve the desired results.

Information required by the Farmer from the Accountant

We have already examined the structure of the accounts which are on a simple basis but designed for the minimum of effort on the part of the

farmer to display the features capable of producing the information he wants.

He is interested primarily in examining his total revenue and in knowing how this is made up of the various main products. This information can tell only a part of the story unless there is also a record of the acreage of each section and details of the quantity and quality of the product. There are still price controls on many agricultural products but others are subject to widely fluctuating market prices and a drop in the revenue from one particular item will not of necessity mean that there has been a fall either in quantity or quality produced. The first essential, therefore, is to know the amounts produced and sold in each class of crop, and from this to lead on to the average prices realized.

On the other side of the account we have seen the main classifications of expenditure, but these are only in broad terms. They give the farmer the general picture, and answer his general questions: am I spending more or less on fertilizers? Have the expensive sprays used last year to control weeds been reflected in reduced labour costs and a cleaner or better quality crop? Is there evidence that the money I spent on replacing those two old tractors with new ones has reduced the cost of maintenance? Is the fall in my income from sales of hay and roots more than balanced by the reduction in the cost of bought fodder? How far did the money I received from hiring out the new combine go towards the cost of the machine? These and many others are the general questions that can be answered by little more than a glance at the accounts. It is surprising how often the published figure is quite a revelation compared with the impression obtained without reference to the facts. But such generalizations are by no means the complete answer, especially where a very small margin may lie between profit and loss or a satisfactory result on one section may be the direct cause of an even greater loss elsewhere. This is a factor which is so often obscured in farming, but which can frequently be discovered by a proper analysis of the accounts.

Unrecorded Costs

Reference has already been made to the unrecorded costs which in agriculture are a more important feature than in some other businesses. These are mainly, rent, personal labour and interest on invested capital. We are not concerned in these matters with the taxation aspect, for the last two items are not the subject of adjustment and there is, in the case of rent, the normal adjustment

for net annual value. These items are, however, of vital importance when considering the farm economics in detail. The market for farms is becoming easier today but until quite recently it was almost impossible to obtain a farm on a tenancy. Considerable capital is required to purchase a freehold farm and to stock it adequately. There is also a large requirement of working capital to carry over from one season to another. There is obviously a dangerous sense of security conveyed to a farmer with a general mixed farm of popular size, say from 150-300 acres, who is shown to be making a modest profit of £1,000-£1,500 per annum, unless these factors are taken into account. He may require equipment and stock costing anything between £5,000 and £10,000, and if he is also the owner of his land he may need upwards of a further £10,000 plus his seasonal capital requirements.

On a specialist farm the costs may well be much more. Even government departments, who should know better, are guilty of giving statistics of earnings without taking unseen costs into account. The capital invested in such a farm could earn a reasonably safe 6 per cent in good industrial securities without any of the risks attaching to agriculture. This would still leave the investor the opportunity of earning his own living in employment which would be subject to fixed daily hours and free week-ends. Many farmers are only too well aware of these factors but there are others for whom the argument remains an unexplained mystery without the guidance of a professional accountant.

Change-over of Farms

There is one further point which is to a large extent peculiar to the agricultural industry. This concerns the financial arrangements consequent upon the change of farm from one farmer to another. At one time it was customary for farms to change hands only at Michaelmas after harvesting had been completed. This is not always the case today. But whatever the date there is always a considerable value in tenant right, cultivations, unexhausted manures, and labour to land, which has to be accounted for as between outgoing and incoming farmer.

Custom varies in different parts of the country, but generally speaking a separate value is put on such items as opposed to the value of the freehold itself—just as in the ordinary commercial business in the separation of stock-in-trade and work in progress, from the fixed assets. Where the valuation of such items is properly agreed between the parties, no difficulty arises

and the same figures provide the closing stock for the seller and the opening stock for the incoming farmer. Occasionally, however, there may be special considerations which demand a different treatment, and where for one reason or another some of the items normally valued separately are deemed to be part of the freehold. An interesting example of the effect of this arose in the case of *C.I.R. v. Pilcher* (28 A.T.C. 385; 31 T.C. 314). A cherry orchard was sold at a time when the fruit was almost ready to be picked and the purchaser claimed to deduct from the proceeds of selling the fruit the value at the date of the transfer of the land, no apportionment having been made in the conveyance. The taxpayer lost his case and the moral is that a very damaging effect on the tax liability can arise unless the results are foreseen and adequate provision is made for proper treatment. In this respect there is an important field for co-operation between the valuer, solicitor and the accountant concerned on both sides, to ensure that the financial aspects of the transfer do not create an inequity of this kind between the seller and the purchaser.

Capital Expenditure on Works and Buildings

By reason of the provisions of the Income Tax Act of 1945, the agricultural industry enjoys an advantage which is not shared to the same extent by others. The Exchequer have recognized the need to encourage the improvement and extension of farm buildings and to give relief for expenditure on capital works such as drainage schemes, irrigation and electrification designed to improve farm land. The capital allowances which are granted for such expenditure are much wider in scope than the somewhat narrow application of the industrial buildings allowances, and they are more rapid in effect for the cost is wholly allowed for tax purposes over a period of ten years. Perhaps the most important advantage is that there is no provision for a balancing charge. There is also in practice a considerable freedom in the method of granting the relief.

Although it has been said elsewhere that the taxation aspect of accounts should take second place to the true accountancy functions, we have here a taxation feature that is of considerable importance in its own right, and which must be given full weight in dealing with agricultural finances. Expenditure which qualifies for this allowance is required by the Inland Revenue to be scheduled and vouched and it is quite obviously the accountant's duty to ensure that no such claim is overlooked.

It is important, too, for the practitioner dealing with farm accounts to be familiar with the various grants which may be claimed by the farmer for assistance in connection with capital works. The entitlement to such claims may be well known to the farmer, but it is very often the accountant who will be asked to submit the details and to ensure that the correct amount is received. He must likewise be knowledgeable on the subject of the various subsidies which may be claimed and the impact of these on the accounts.

The 'Herd Basis'

The disastrous epidemic of foot and mouth disease which affected almost the whole country during 1952 has given much emphasis to the special considerations that can arise in connection with livestock. One result of this has been the less rigid application of the 'herd basis' of treatment provided for in the 1953 Finance Bill. The misconceptions that existed prior to this on the subject of the application of the 'herd basis' are quite extraordinary. In fact it was only in a comparatively few cases that the adoption of this method of treating livestock as a fixed asset was a real benefit to the farmer. In most cases where the purchase and sale of livestock formed part of the normal annual operations, the more customary stock valuation was the only possible method. There would not in such cases be sales in any one year of more than a fraction of the livestock involved, but the compulsory slaughter of all stock and the receipt of compensation in one accounting period produced quite exceptional results merely by creating in this period the effect of sales which would normally have been spread over several years. The effect was aggravated even more because for some time afterwards it was not possible to restock and continue normal operations. I venture to suggest that this is a clear example of one of the many ways in which the farmer can benefit from the services of an accountant in getting the proper advice as to treatment.

Enough has been said in this article to demonstrate that there are so many special features in the economics and finance of agriculture that in these complicated times the accountant who is practising in a rural area must equip himself with the specialized knowledge to render proper service to agriculture and, on the other hand, to show that the farmer who is anxious to get the most out of his own efforts cannot reasonably expect to cope single-handed with the financial and accounting problems that continually beset him. (To be concluded.)

WEEKLY NOTES

New Member of the Council of the Institute

We reported last week the election of Mr Redvers Boulton Leech, M.B.E., T.D., F.C.A., to the Council of The Institute of Chartered Accountants in England and Wales.



Mr R. B. Leech, M.B.E., T.D., F.C.A.

Mr Leech is senior partner in the firm of Leech, Evans & Co, Chartered Accountants of Coventry and London. Articled to the late Mr Edward Thomas Peirson, who was a member of the original Council of the Institute when the Charter was granted, he was admitted an Associate of the Institute in 1923 and elected a Fellow in 1931.

Mr Leech commenced in practice in Birmingham in 1926 and two years later opened his Coventry office, shortly afterwards being joined in partnership by Mr W. W. Evans.

A founder and first chairman of the Coventry Branch of the Birmingham and District Society of Chartered Accountants, he was elected as Coventry representative to the Society, which he has also served as Librarian and Treasurer.

Mr Leech has a distinguished record of military service, his first period with the forces being 1918-19. He was a Territorial officer from 1928-39 and throughout the last war he served in France, the Middle East and Western Desert, and in Italy. While with the Eighth Army he was mentioned in Despatches, and in Italy he was awarded the M.B.E. (Military Division) and Territorial Decoration. At the conclusion of the war he had been serving for almost two years as an A.Q.M.G. with the rank of Lieutenant-Colonel.

In 1931 Mr Leech founded the Coventry Repertory Company and four years later the York Repertory Company of which he is still a member of the governing body.

He is a Freeman of the City of Coventry.

Liverpool City Treasurer Honoured

Mr John Ainsworth, M.B.E., F.S.A.A., F.I.M.T.A., City Treasurer of Liverpool, received the honorary degree of Master of Commerce of Liverpool University, at the midsummer degree day congregation.

Mr Ainsworth is a member of the Council of The Society of Incorporated Accountants and Auditors, and a Past-President of The Institute of Municipal Treasurers and Accountants.

London Transport Inquiry

The Minister of Transport has announced the names of members of the London Transport Committee of Inquiry which the Government decided last April to set up. Mr T. B. Robson, M.B.E., M.A., F.C.A., immediate Past-President of the Institute, is serving on the committee, which is under the chairmanship of Mr S. P. Chambers, a deputy-chairman of Imperial Chemical Industries Ltd.

The committee's terms of reference are:

'To inquire into the conduct of the undertaking carried on by the London Transport Executive (excluding any questions relating to charges) with a view to ascertaining what practical measures can be taken by the British Transport Commission and the Executive in order to secure greater efficiency and economy.'

Accountants' Working Papers

When a firm of accountants prepares working papers in the course of producing a balance sheet for a client company for audit purposes, to whom do the working papers belong? The Court of Appeal held last Tuesday that they belong to the accountants and not to the client. The Court held on the other hand that correspondence between the accountants and the Inland Revenue concerning the client's tax liability belongs to the client. These decisions were given in the course of interlocutory proceedings in *Chantrey Martin & Co v. Martin* (*The Times*, July 15th, 1953). We hope to refer to them in a leading article next week.

Valuation for Rating Bill

The Valuation for Rating Bill has now passed its third reading. Standing Committee C had three meetings on it and produced some useful improvements. In particular, cycle and perambulator sheds and storerooms, not in the same curtilage as the dwelling-house with which they are used, will be valued on the same basis as dwelling-houses. The provision, that the 1939 basis is to apply to subsequent values after the first, has been dropped, so that the Government will be compelled to reconsider the valuation provisions in the not too distant future. One of the improvements was a drafting one which shortened the Bill by ten lines and at the same time made it more intelligible, without altering its substance. These amendments, useful as they are, really do no more than touch the fringe of the problem. When assessment notices are eventually sent out to startled occupiers, the latter will find that in order to substantiate their appeals they will have to put in evidence of what the houses would have been worth to let in 1939 assuming that present surrounding circumstances applied at that time. The Bill passed its second reading in the House of Lords on Tuesday.

Colonial Sterling Balances

During 1952, the sterling balances of the colonial territories increased by about 10 per cent compared with 1951. This was a less spectacular rise than in the previous year, but it nevertheless underlines the important role which the colonial dependencies play in the economy of the sterling area. Last year the gross total of colonial sterling balances was £1,210 million compared with £1,086 million in 1952, but there was an element of dominion balances in these figures and when account is taken of these, the total for last year was about £1,065 million.

Among the territories listed, the West African group continued to be the area with the largest assets, followed by Malaya, East Africa and Hong Kong in that order. For the first time since the war, however, the total value of colonial foreign trade fell, but this was due to lower turnover in Hong Kong and Malaya.

Boom conditions in the colonies is further underlined by the buoyant state of many of their exchequers – key areas being in a position to add to reserves with budget surpluses and use some of their enhanced funds for financing capital projects. This facility for financing development out of their own accumulated surpluses has not meant, however, that there has been a notable fall-off in the flow of capital to the colonies – quite the reverse. So far as this country is concerned, the picture is fairly clear. The colonies are important, indeed vital, contributors to the sterling area; they are enjoying buoyant trade and fiscal conditions (taken as a whole) but they are in consequence also in a position to make demands on the capital resources of the sterling area and this is a demand which this country finds it exceedingly difficult to meet and at the same time cope with the needs of the Dominions. Neither can be fairly dealt with unless this country can earn – and keep earning – a substantial surplus on its foreign account.

Higher Trade Deficit in June

During June the adverse trade balance increased by just over £3 million compared with the previous month. In May it was £76.8 million, in June the gap had increased to £79.8 million. These provisional figures were given by the Chancellor of the Exchequer in the House of Commons on Monday.

The main reason for the slight worsening of the position was the continued high level of imports. These were higher compared with May on an average working-day basis although the total volume was lower owing to the Coronation holiday. A welcome feature of exports was the continued resilience of shipments to North America. These achieved, in fact, a record level. Taken on an average working-day basis, exports were at the same level as in May.

Looked at from month to month in this way the country's external trading account does not appear to be in bad shape. It is only when a comparison is made with the visible trade balance a year ago and the slow rate of progress is noted since the first half of 1952 that there arises cause for misgivings. In

contrast with the first six months of 1952 imports have been reduced by about £200 million. On the other hand exports have fallen over the same period by about £180 million so the net balance is only £80 million better than a year ago. The monthly trade figures have been proved to be much less reliable as a guide to the actual state of the balance of payments and the visible trade balance than was thought at one time and they have been found to err on the pessimistic side. Nevertheless, the country seems at present to be saddled with the chronic difficulty of being unable to get anywhere near a balanced external account except at lower and lower levels.

June Record for Steel

Steel production reached an annual rate of 17.6 million tons last month which is the highest figure ever achieved in June. The performance is all the more notable since account has to be taken of the Coronation holiday. Over the half year, the rate of steel output is now running well ahead of the corresponding level in 1952. It has a lead of 2 million tons in fact.

The level of the industry's blast furnace capacity is the key factor in these good results. In the second half of last year there was a notable expansion in capacity at the blast furnaces and the buoyant output of ingots and castings from the steel mills has been maintained on this increase in pig-iron output.

Cinema Exhibitors' Difficulties

Few industries can claim to have had such a combination of long-term sales and incidence of taxation problems in the last year or so as the cinema exhibitors. The value of admissions over the last few years has fallen disturbingly. From £1,480 million in 1948, takings declined to £1,312 million in 1952. Higher prices of admission (following tax increases) and a decline in purchasing power through 1951 and part of 1952 have been factors affecting the trend but there is no doubt that competition from television is the critical issue. An indication of this has been the nervous approval by the industry of the Government's decision not to allow sponsored television for the time being.

But while the outlook for the cinema remains obscure the tax burden coupled with the levy under the Eady Plan continues as a serious drain on gross profits. In 1948 taxation took 35 per cent of gross profits; last year taxation and Eady contribution absorbed 37 per cent of the gross. It is, of course, the small exhibitors who feel the pinch particularly keenly. They have smaller reserves to ride out the storm and less hope of raising the necessary capital for 3-D development and the like than the big circuits.

The immediate prospect is not bright but a good deal more about the impact of television on social habits will have to be known before it can be said that the cinema industry will shrink permanently.

FINANCE AND COMMERCE

Turnover in stock-markets is insufficient to develop a firm undertone into a more obvious show of confidence. The market is now embarked upon a three-week account to cover the August Bank Holiday and business is not expected to be brisk.

W. W. Chamberlain

It is not often that the main point in reproducing a company's accounts in this column is to emphasize that the form of presentation is the same as it was the previous year. Nevertheless, that is the chief point of interest in the balance sheet of W. W. Chamberlain (Associated Companies) Ltd, which we reprint this week.

Last year – in Finance and Commerce on July 26th – we reported that the directors had under consideration the adoption of vertical form for the accounts but, feeling that a change should not be made without notice, had deferred the matter until this year. The chairman considered that the figures were not brought out to their best advantage and said that changes in the form of the accounts would be made. We commented that the essence of good presentation is not necessarily confined to the shape or form of the accounts but very much in the way the space is used.

The balance sheet for the year to March 31st, 1953, it will be seen from the reprint, is still in the double-sided form. Presumably after due deliberation the directors have decided that this is the clearer method of presentation and the form most acceptable to the majority of shareholders. But there are changes in the accounts which show that a great deal of thought has been applied to them.

Improvements

One of these changes is the use of an improved form of profit and loss account and the scrapping of the previous double-sided account – to this extent therefore the directors have adopted their last year's suggestion. But in the balance sheet the changes are more in the form of improvements on the former style than in a complete change of layout.

The type used is bolder and blacker. Group headings stand out clearly. Fixed asset detail is set out horizontally and not vertically. The transfer of stock and bad debt contingency accounts to general reserve has cleared the two items from the current assets group, where they were previously shown as deductions from the stocks and debtors items. The notes to the accounts are this year printed with the profit and loss account, so giving more space for balance sheet layout. The result is a much more readable presentation of the figures.

Additional information this year is provided in a six-year record of trading results and a balance sheet analysis showing shareholders' interests represented by capital and reserves. Mr W. H. Chamberlain,

chairman and managing director, remarks upon a tendency among companies to circulate annual reports without a statement from the chairman. 'I have decided not to adopt this practice,' he says, 'because I feel that in my statement I can explain more fully the results shown in our accounts.'

Vitamins Changes

A complete change of style is adopted in the latest report of Vitamins Ltd. For years the company's report, while presenting the figures in accordance with modern practice and with group and parent balance sheets related to a common narrative, had little of the additional finish now associated with company report presentation. It was strictly a clear statement of facts without frills.

The 1953 report, in booklet form, is completely different. Printed on high-gloss paper it runs to twenty-four pages and, so far as the accounts are concerned, the main point of interest is that the 'modern' form has given way to two separate double-sided balance sheets. Vitamins Ltd is not the first company to have reverted to the older form after adopting the new.

In a very full and detailed statement covering the company's operations the chairman, Mr H. C. H. Graves, says that it had been 'forcibly represented' to the directors and not least by the company's chief accountant, Mr J. Shannon, A.C.W.A., A.C.I.S., that the former presentation method did less than justice to the company's size and standing. The company's advertising manager was responsible for the technical production of the report and his influence is clear in the various charts and statistics which embellish it.

Simplified Figures

Simplified financial statements for the benefit of employees now form an integral part of management-employee relationship in industry. One of the best efforts we have seen in this direction is made by the Tube Investments group.

The financial facts are given in six tables showing where the group's capital comes from, how it is being used, how profits are earned and divided, how each £ of revenue is used, how additional capital is put to use and where the additional capital comes from.

In the foreword to the tables it is pointed out that the figures can be understood 'by an intelligent man who is prepared to give them careful study'. That gets near the kernel of the matter. There must be a willingness on the part of the pupil before education can succeed.

Money Market

With the market reverting to a bid of £99 8s 2d the average rate for Treasury bills on July 10th rose to £2 7s 3.47d per cent. Applications totalled £353,440,000 and 63 per cent of requirements was obtained. This week's offer is £250 million.

W. W. CHAMBERLAIN (ASSOCIATED COMPANIES) LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET — March 31st, 1953

	1952 £	1953 £
Share Capital and Reserves		
Share Capital:		
Cumulative Preference Shares of £1	100,000	100,000
Ordinary Shares of 2s	200,000	200,000
	300,000	300,000
Capital Reserve:		
Share Premium Account	74,916	74,916
Revenue Reserves:		
General Reserve	10,000	81,000
Board of Trade Subsidy Stock Reserve	1,635	1,635
Dividend Equalization Reserve	10,500	10,500
Profit and Loss Account	49,287	53,725
	146,860	146,860
Reserve for Income-tax, 1953-54	446,338	521,776
Minority Interest in a Subsidiary	54,400	76,475
Current Liabilities		
Creditors and Accrued Charges	6,209	6,575
Taxation	81,421	62,810
Proposed Ordinary and Accrued Preference Dividends	108,008	78,609
	19,031	19,938
	208,460	161,357
	£715,407	£766,183
Fixed Assets		
Freehold Land and Buildings	85,809	85,809
Machinery, Plant and Motor Vehicles	193,575	193,575
	279,384	279,384
Patents, at cost less amounts written off	2,418	2,418
Goodwill, less amounts written off	181,407	181,407
	16,000	16,000
Investment in Fibre Processors (Asst.) Pty Ltd		
Current Assets		
Stocks, at cost or under	269,920	231,741
Debtors and Prepayments	117,747	100,545
Investments, at cost:		
Government Securities	100,751	1,000
Other Investments	1,156	1,156
Bank Balance and Cash in Hand	101,907	183,558
	70,084	518,000
	559,658	£715,407
	£766,183	
		W. H. CHAMBERLAIN } Directors. D. CHAMBERLAIN }

CONSOLIDATED PROFIT AND LOSS ACCOUNT — For the Year ended March 31st, 1953

	1952 £	1953 £
Trading Profit of the Group		
Add Income from quoted investments	165,637	193,200
Transfer of Goodwill in 'Farrington'	129	1,195
	8,000	—
Less Stock Contingencies - Provision	173,766	194,395
Bad Debts - Provision	2,000	—
Depreciation	18,838	21,385
Audit Fees	1,770	1,770
Directors (Note 4)	11,103	12,766
	34,711	34,921
Profit before Taxation	139,055	159,474
Less Taxation based thereon:		
Income-tax	57,610	76,784
Profits Tax	35,400	17,125
	93,010	93,909
Less Over-provision in prior years	91,041	87,638
	48,014	71,836
Net Profit of the Group for the Year	1,141	366
Less Profit of subsidiary attributable to outside shareholder	(Loss)	—
	49,155	71,470
Add Balance brought forward from last year	46,747	49,287
Transfer from Provisions for Contingencies	—	39,000
	£95,902	£159,757
Available Balance	£95,902	£159,757
Allocated as follows:		
Capital Issue and Preliminary Expenses	—	—
General Reserve	—	—
Dividends for the year, less tax:	—	—
Preference Dividend	2,657	2,657
Interim Ordinary Dividend of 124 per cent	13,125	13,125
Proposed Final Ordinary Dividend of 17½ per cent	19,250	19,250
Balance carried forward to next year	35,032	34,125
	53,725	49,287
	£159,757	£95,902

Notes to be read in conjunction with the Accounts for the Year 1952-53

- The basis of Valuation of freehold and leasehold land and buildings and plant is as follows:
 - In the case of four subsidiaries, a valuation by Messrs Jackson Stopp & Staff dated November 5th, 1946, with subsequent additions at cost less sales and amounts written off.
 - For Fred Corby Limited, valuations by Messrs Jackson Stopp & Staff dated August 9th, 1948, and by Messrs G. F. Singleton & Co, dated August 31st, 1948, with subsequent additions at cost less sales and amounts written off.
 - For the remaining subsidiaries, cost.
- The market value of investments, other than Trade, held by the Company at March 31st, 1953, was £101,812.
- Estimated commitments under contracts for capital expenditure not provided for amount to £19,100.
- The emoluments of the Directors paid by the Company and its Subsidiaries amounted to:

Directors' Fees	1953	1952
Other emoluments, including pensions scheme contribution	£361	£361
	11,805	10,142
	£12,766	£11,103

W. W. CHAMBERLAIN (ASSOCIATED COMPANIES) LIMITED
BALANCE SHEET — March 31st, 1953

Share Capital and Reserves	Authorized £	Issued and Paid-up £	1952 £	Interest in Subsidiaries	£	£	1952 £
Share Capital:				Shares, at cost	269,083		269,083
5 per cent Cumulative Preference Shares of £1	200,000	100,000	100,000	Amounts Receivable (including Dividends since declared)	53,731		153,091
Ordinary Shares of 2s	250,000	200,000	200,000			322,814	422,174
	<u>450,000</u>	<u>300,000</u>	<u>300,000</u>				
Capital Reserve:				Current Assets			
Share Premium Account		74,916	74,916	2½ per cent National War Bonds, at cost ..	99,751		—
Revenue Reserves:				(Market value at March 31st, 1953, £99,719.)			
Dividend Equalization Reserve	10,500		10,500	Debtors	1,215		1,847
Profit and Loss Account	<u>19,159</u>	<u>29,659</u>	<u>18,197</u>	Balance at Bank	910		608
		404,575	403,613			101,876	2,455
Current Liabilities				W. H. CHAMBERLAIN } Directors			
Creditors and Accrued Charges	177		1,985	D. CHAMBERLAIN }			
Proposed Final Ordinary Dividend, less Tax	19,250		18,375				
Accrued Preference Dividend, less Tax	<u>688</u>		<u>656</u>				
		20,115	21,016				
		<u>£424,690</u>	<u>£424,629</u>			<u>£424,690</u>	<u>£424,629</u>

REPORT OF THE AUDITORS TO THE MEMBERS OF W. W. CHAMBERLAIN (ASSOCIATED COMPANIES) LIMITED

We have examined the above balance sheet, which is in agreement with the books of account, and the annexed consolidated accounts of the company and its subsidiaries. Proper books of account have been kept by the Company. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our audit and it is our opinion that, in conjunction with the relative notes, the accounts give the information required by the Companies Act, 1948.

We are of the opinion that the balance sheet of the company gives with the consolidated accounts a true and fair view of the state of its affairs at March 31st, 1953, and the consolidated accounts give, from the standpoint of members of W. W. Chamberlain (Associated Companies) Limited, a true and fair view of the state of affairs at that date of the company and its subsidiaries and of their profit for the year ended on that date.

Regent House,
45 Sheep Street,
NORTHAMPTON.

May 27th, 1953.

A. C. PALMER & CO,
Chartered Accountants.

REVIEWS

Delegation of Services within Counties

by J. R. Sampson, A.S.A.A., F.I.M.T.A.

(Institute of Municipal Treasurers and Accountants,
London. 25s net)

A Survey of Unit Costing in Local Government

by Sidney Yates, A.S.A.A., A.I.M.T.A., and
R. E. Herbert, A.I.M.T.A., D.P.A.

(Institute of Municipal Treasurers and Accountants,
London, 20s net)

These two volumes are part of a series of research studies promoted by the Research Committee of the Institute of Municipal Treasurers and Accountants. In the first, Mr Sampson gives a factual survey of the extent of delegation adopted by county councils in the thirty-eight counties in England and Wales with a population in excess of 200,000. The services selected for review are local health, education, town and country planning, civil defence and highways, with a brief reference to the welfare services.

No attempt has been made to discuss in detail the problems arising from delegation and the book is in effect a summary of replies received from inquiries addressed to the selected counties, together with a statement of statutory provisions affecting the delegation of duties for the various services and the relevant parts of the Local Government Manpower Committee's reports. The diversity of the replies emphasizes the individual nature of each county's

problems and as a result any tabular presentation of facts has been accomplished only on a broad basis and without a detailed description of any one scheme of delegation.

The second volume is concerned with the application of unit costing to a number of individual services undertaken by local authorities. There is an introductory review of the subject generally, followed by a more detailed examination of problems peculiar to different services based on replies to a questionnaire received from ninety-one local authorities including councils of counties, county boroughs, non-county boroughs, metropolitan boroughs, urban districts and one Scottish authority.

This is not a factual survey and the practices adopted by various local authorities have not been tabulated; rather is it a more discursive book 'intended to be a general evaluation of the effectiveness or otherwise of unit costing only . . .', an object it achieves with clarity and conciseness. Present practice is examined, discussed and assessed and there is a useful appendix of unit costs suitable for individual services.

RECENT PUBLICATIONS

BUTTERWORTHS COMPANY PRECEDENTS, Volume III, revising editor Raymond Walton, M.A., B.C.L., Barrister-at-Law. lii + 658 + index. 10 × 6½. 63s net. Butterworth & Co (Publishers) Ltd, London.

THE CHANGING LAW, by Sir Alfred Denning. viii + 122 pp.
8 x 5. 10s net. Stevens & Sons Ltd, London.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accounting Principles: Traditional Accounting and Cost Accounting

SIR, — Mr G. W. Reed (issue dated July 4th), states the case for historic cost admirably and the methods hitherto used have served their purpose quite well. To meet current conditions they require taking a little further, but not 'doctoring' as Mr Reed succinctly puts it. Replacement profit is not false, but some concepts of it are confusing. If a company intends to continue trading and the value of its stocks has fallen or it will cost more to replace them, then provision must be made; the loss, however, is strictly of capital. If a company has made a profit of £50,000, but it will cost £20,000 to write off stocks that have fallen in value or will cost more to replace, it may be said that the 'traditional profit' of £50,000 should be known as 'profit before replacement' and the £30,000 as 'profit after replacement and before tax'. This replacement element or part of it, although of a capital nature, might well rank for tax relief. In the cost accounts, profit should be 'profit after replacement' so that, in fixing price levels, regard should be had to rising costs. From the shareholder's point of view, however, the position should be clearly shown in two stages.

The trouble with many accounting systems today, and with concepts of accounting, is that traditional accounting is married to cost accounting, sometimes resulting in the worst of both worlds; the position would be improved if they could be divorced at will. It is possible to arrange accounting systems economically so that they give readily both historic costs and any form of detailed costing that may be appropriate. Replacement costs should not be ignored, but shareholders and others should be able to see the profit on trading — profit before replacement — and the additional cost necessary to keep in business. To ignore replacement costs may permit higher dividends but will not take a company safely through periods of unstable trading conditions.

Yours faithfully,
Caterham, Surrey. K. H. WEST.

More or Less Correct

SIR, — That the problems of provincial practice are not confined to the question of adequate remuneration and unqualified competition is clearly illustrated by the following certificate attached by the rector of a country parish to a statement prepared for the Charity Commissioners:

'I hereby certify that the foregoing statements are correct. As far as I know it is more or less correct and in order.'

Needless to say, a full audit was considered necessary!

Yours faithfully,
M.

Unqualified Accountants

SIR, — In the main, the so-called quack competes with the qualified accountant to obtain the work from small shopkeepers and businesses. These are mostly accounts from incomplete records, simple books and the like where the problem is to form a reliable idea of unrecorded sales, drawings and over-recorded expenses.

For this work the quack is unconcerned with examination studies in trustee, cost or mechanized accounts, advanced commercial law or banking and finance. When I consider that the articled clerks of at least the small accountants obtain just enough knowledge to pass such examinations from the simple text-books and examination hints of the correspondence courses, with their emphasis on examination tactics, maximum marks per minute, etc., I wonder if the quack in his sphere is any the worse for not studying such subjects in such a manner?

If the public need some protection, it must come surely from the Inland Revenue officials who scrutinize the accountant's work and from experience I suspect that they find it necessary to scrutinize the work of the qualified as keenly as that of the unqualified.

Yours faithfully,
Coventry. A. D. N. HARRISON, A.C.C.S.

Accounting for Inflation

SIR, — Assuming that Mr Nielsen intended his letter published in your issue of July 4th to be taken seriously, it would be interesting if he would tell us what action on the part of the Government would achieve the result which he considers so essential.

How, for instance, can the Government ensure that there is always the right quantity of each commodity available at the right price to meet the demand and that there is always a market for the whole of the production of our industries at the right prices to maintain the desired level of prices? (See (a)).

What is to become of new inventions and how are progressive people to be restrained from improving their standard of living?

(a) (Obviously subsidies would be ineffectual as they would involve fluctuations in taxation and consequent variations in purchasing power.) The demands of national defence and increasing social services would also require consideration. Some of his colleagues in commerce would welcome a solution to the fluctuating price problem.

Yours faithfully,
R. H. QUINEY.

Stoneygate, Leicester.

Accountancy on the Wireless

SIR, - I wonder if many members of the profession listen to the radio feature 'The Archers'. Those who do, were no doubt interested last week to hear the industrialist-farmer, Mr Fairbrother, give Dan Archer some salutary advice on the benefits of satisfactory farm accounts. Fairbrother was amazed to hear that the stolid Dan could not say for certain if the small-holding run in addition to the farm was making profits or losses and suggested that if the latter were the case, possible tax reliefs were being lost. 'You need a separate profit and loss account and balance sheet,' recommended the erudite Fairbrother, no doubt with the old Rule 13 claim in mind.

Poor Dan sounded amazed by this wealth of financial knowledge but gratefully accepted his neighbour's offer to contact his own accountants and 'send the junior chap over to see him'. We may therefore, I am sure, feel satisfied that one less farmer will be left to the ministration of the 'Quacks'.

Yours faithfully,
AMBRIDGE.

'Replacement Profit is False'

SIR, - Following with great interest the lively correspondence which followed the publication of Mr H. A. Briscoe's article in your columns, I think there is an urgent need to expose the theoretical basis of this article which might best be termed a crude pseudo-economic theory of double entry.

There is the deceptive 'pool of real capital' which logically means that the author considers a scarce machine tool costing £1,000, equivalent to £1,000 worth of unsaleable toffee stocks.

Although Mr Briscoe is at great pains to stress that his pool is measured in real terms, he assumes, without discussion, that 'real' is the same thing as original cost. Paradoxically this could only be true in a system where neither inflation nor deflation could occur. Mr Briscoe's pool consists of particularly ambiguous money and it is clear that the inflationary problem is simply avoided by discussing money in monetary terms.

There is the definitional equality of aggregate income = output = expenditure which Mr Briscoe raises to the status of a fundamental law with the simple faith that at the bottom of all laws of nature there is embedded the double-entry principle. This classical fallacy is well known in economic theory as 'Say's Law', since the second half of the last century.

The author defines 'real' income as the stream of production of which some is consumed and the rest by definition 'real' capital. 'Real' capital and 'real' consumption in turn define 'real' production thus closing nicely the logical circle. A moment's reflection shows that these definitions are absolutely meaningless in themselves.

If we need a definition of real income for the discussion of the inflationary problem it must be something like Professor Hicks' definition (*Value and Capital*¹) describing

'a man's income as the maximum value which he can consume during a week and still *expect* to be as well off at the end of the week as he was at the beginning'.

To say that the shareholder is primarily interested in how his money is spent is nonsense. He is concerned mainly in the accretion of value to his investment outlay and in the prospects of present and future income from it.

Surely the accounting problem of inflation and replacement profits arises from the form of the accounts of the individual business and not from statistical aggregates.

In normal times the values shown in the balance sheets and profit and loss accounts are a reliable index of the physical or real state of affairs of the business. In times of inflation, however, this very significant relationship is distorted or lost. This is the essence of the problem and any discussion should start from this point.

Yours faithfully,
London, SW2. H. A. K. M. SCHWEITZER.

African Reader's Need

SIR, - May I seek help from chartered accountant readers?

I am an African (a Nigerian). I came to this country with the sole idea of becoming articled and qualifying as a chartered accountant.

I have been here for five months, during which time I have answered many advertisements for articled clerks, but I have not been lucky enough to receive a favourable reply. I have sought the assistance of the Director of Colonial Students, Colonial Office, but he is unable to help me.

I am taking a correspondence course, and my experience and qualifications are:

- (a) Five years' practical accounting experience in a bank in Nigeria.
- (b) Practical knowledge of typing and other incidental office routine work.
- (c) A London diploma in advanced English.
- (d) Taking course towards the B.Sc. degree.
- (e) Possess testimonial as to character and suitability.

I am very anxious to become an articled clerk and I am greatly hoping that this letter may bring a reply from a chartered accountant.

Yours faithfully,
London, SW15. H. S. SOWEMIMO.

[We shall be very pleased to forward letters to our correspondent. - Editor.]

¹ Oxford University Press, London.

Co-ordination of the Profession: Secretaries

SIR, - With reference to 'Chartered Secretary's' letter in your issue of July 4th, I feel that his suggestion requires a complete rebuttal.

As far as I know, the Chartered Institute of Secretaries has never claimed that its members are professional accountants or suitably qualified to act as auditors of limited companies.

I strongly advise 'Chartered Secretary' to study the respective Final examination papers of the Institute of Chartered Accountants and the Society of Incorporated Accountants in order to see how they diverge from those of the secretarial bodies.

In any case, there is, unfortunately, at present nothing in the 1948 Companies Act to prohibit any person acting as auditor of an exempt private company, and further, Section 161 (1) (b) does in fact allow a person with the requisite experience in a practising accountant's office to apply to the Board of Trade for permission to act as auditor of a public limited company.

I might add that if any chartered secretary has the necessary six years' experience in such a professional office it would be open to him to apply for permission to take the examinations of the Society of Incorporated Accountants.

Yours faithfully,
CHARTERED ACCOUNTANT
AND
CHARTERED SECRETARY.

SIR, - One of the first steps that might be taken for co-ordination of the profession would be for the Government to introduce legislation restricting or precluding the formation of new accountancy bodies, and restricting the office of auditor, in the case of new appointments, to properly qualified accountants.

Furthermore, rather than fuse an unwieldy mass of bodies with differing viewpoints, in the name of 'speaking with a single voice', it would be preferable to start by, directly or indirectly, limiting or discouraging admission to the lesser bodies and working upwards. The last thing to do is to permit more unqualified accountants to practise, and dilution is not always a good thing.

The three major accountancy bodies in England and Wales may be said to cater for different spheres of activity, if they did not, they would have been amalgamated or one or other would have disappeared long before this. If the usefulness, to the public, or to the qualified member, disappears in the case of one or more of them, then the profession will be unified by elimination.

Your correspondent recently speaking for the secretaries on the subject of accountants' co-ordination, did not mention the fact that there is more than one body of secretaries; and the qualification of solicitor is obtainable by more than one means. Several other professions exist in which there are similar or overlapping bodies. The fact that account-

ancy has several organizations is a reflection of its very wide scope, a scope far wider than most professions.

Yours faithfully,
Caterham, Surrey. K. H. WEST.

Definition of Turnover

SIR, - I have recently returned from the Sudan and the following definition of turnover was heard given in the Sudan Club: 'Turnover of a business is the sum-total of the debits to the profit and loss account.'

That might amuse your readers. Incidentally, the statement was made by a principal of H.M. Treasury.

Yours faithfully,
Wembley Park, Middx. E. BEECHING.

'The Accountancy of J. M. Keynes'

SIR, - Mr Striker's article in your issue of June 27th is, I feel, unduly critical. His specimen account shows a net accretion to resources during the period. If we follow Keynes we get the following:

User cost: £119,250 minus closing stock £12,000
equals £107,250 (page 66).
Gross profit = Sales minus factor cost minus user cost
= £200,000 - £86,500 - £107,250
= £6,250
Net profit = Gross profit minus supplementary cost
= £6,250 - £1,500
= £4,750

The difference between the net figures is the omission of the windfall loss of £1,000 in the second case. Keynes (page 58) says this should be borne out of capital. The net accretion to resources is therefore the same by either way of reckoning.

Accountants, business men and economists all use the same basic facts but they arrange the items according to the purpose to which they are put. Accountants render an exact *ex post* statement; business men take action on the basis of the accounts and in the light of their future expectations; economists are mainly concerned with *ex ante* problems.

Keynes' book is called the *General Theory of Employment, Interest and Money*, and therefore he studies, *inter alia*, the same elements as the accountant but always with reference to the way in which the expectations and decisions of the business man would affect aggregate employment and national income. In particular, how would the endeavour of the business man to maximize his net profit influence the amount of employment he would offer?

London, W1. J. W. RUDDOCK.

SIR, - In Mr Striker's interpretation of Keynesian final accounts (see *The Accountant*, June 27th, 1953) opening stocks of equipment etc. have been omitted in the calculations although Keynes's definition of user cost explicitly includes it under G' = 'the value it might have had at the end of the period if he (the entrepreneur) had refrained from using it . . .' (see page 66, *General Theory*).

Furthermore, windfall profits or losses are by no means excluded but dealt with separately owing to their assumed lesser effect on entrepreneurial decision making (see page 58, *General Theory*).

I suggest the following is a much fairer and more Keynesian interpretation:

KEYNESIAN PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31ST, 19....			
<i>Factor Cost</i>	£	£	
Rent	1,000		
Wages	80,000		
Interest	500		
Salaries	5,000		
	86,500		
<i>User Cost</i>			
Purchases	100,000		
Power	5,000		
Light and heat	500		
Advertising	500		
Other expenses	1,500		
	107,500		
Plant at Jan- uary 1st ..	10,000		
Add Purchases ..	5,000		
Lease at Jan- uary 1st ..	10,000		
Stock at Jan- uary 1st ..	10,000		
	35,000		
	142,500		
Less Plant at December 31st ..	14,250		
Lease at Dec- ember 31st ..	9,000		
Stock at Dec- ember 31st ..	12,000		
	35,250		
	107,250		
<i>Supplementary Costs</i>			
Depreciation of plant by obsolescence ..	500		
Reserve for obsoles- cence	1,000		
	1,500		
<i>Total Cost</i>	195,250		
<i>Net Income</i>	4,750		
	£200,000		
	£		
Net foreseeable income ..	4,750		
Less Windfall loss ..	1,000		
<i>Net actual income</i>	£3,750		

In order to evaluate the meaning of this exercise I suggest reference to pages 57-58 of the *General Theory*. It becomes then obvious that Keynes is not out to build a bridge to the accounting concept of income or profit as a true and fair record of facts, i.e. the past. On the contrary, the purpose of these analytical categories is to explain the budgetary planning of entrepreneurs or firms.

Economics as a whole is primarily concerned with the general characteristics of human choice or decision making and not with by-gones which can never be altered. Accounts are a record of the past,

i.e. history, and although they may be a most important factor affecting human choice in general they are no part of it.

Furthermore, I should like to point out that the *General Theory* was not written as a text-book but primarily for fellow economists and that chapter six is a digression from the main line of arguments of the work. Its contents are by no means a generally accepted part of economic theory.

The mere generality of Keynes's theory made consideration of specific tax problems quite irrelevant. Generalization, abhorrent though it may seem to the solid empiricism of the accounting profession, is unavoidably the basis of any science.

Yours faithfully,

London, SW2.

H. SCHWEITZER.

Directors' Remuneration

SIR, - Section 196 of the Companies Act, 1948, lays down rules for the disclosure in a company's accounts of directors' remuneration, and states that the figure so declared shall include any emoluments paid to or receivable by any person *in respect of his services as director of the company* . . . or otherwise in connection with the management of the affairs of the company or any subsidiary thereof.

I shall be grateful for the opinion of any of your readers as to the interpretation of this section with reference to alternate directors. Depending upon the articles of the company concerned, alternate directors may be appointed for an indefinite period or purely for the particular absence of the appointing director. Normally such an alternate director receives no remuneration in that capacity, but will, in many instances, be paid a salary in respect of some executive position.

A case in point is that of a company secretary who is appointed alternate on a permanent basis, his remuneration being entirely in respect of his secretarial duties. The question now arises as to whether the remuneration of the secretary is required to be included under the heading of directors' emoluments, (a) in the event of the alternate not being required to act at all during the financial year, and (b) in the event of the alternate acting for a short period during his appointer's absence.

Section 196 of the Act is phrased in such a way as to convince me that such remuneration as is received by the secretary is related entirely to his secretarial duties and cannot be classified as directors' emoluments in either of the above circumstances. Moreover, such classification would, in my opinion, mislead shareholders by giving the impression that the emoluments of full-time directors had been increased.

The matter has, however, been referred to various members of both the accounting and legal professions, and different opinions have been advanced. I should, therefore, be grateful if your readers could throw any further light on the subject.

Yours faithfully,

London, EC2.

A. K. MARTIN.

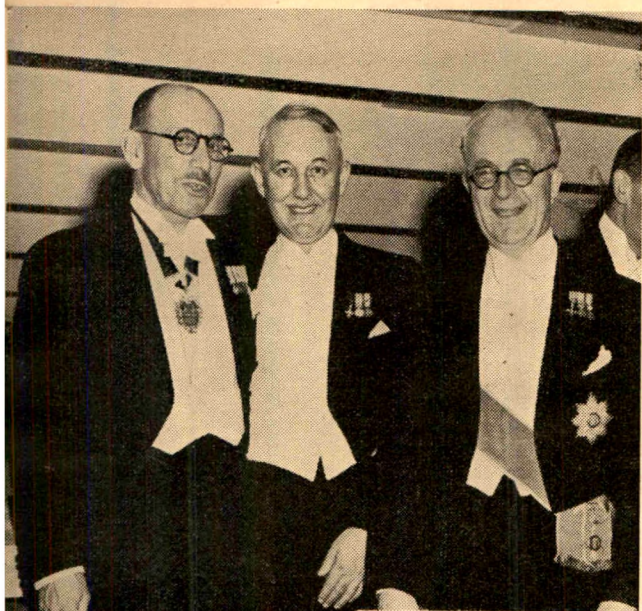
THE INSTITUTE'S CORONATION RECEPTION

To mark the Coronation of Her Majesty Queen Elizabeth II, a reception was held by the Institute at the Royal Festival Hall on Wednesday, July 8th. About 1,450 members and guests attended, among those present being:

Sir William Appleton, (*New Zealand Institute of Accountants*); Sir Eric Bamford, K.C.B., K.B.E., C.M.G., (*Chairman, Board of Inland Revenue*); Mr C. Percy Barrowcliff, (*President, Society of Incorporated Accountants and Auditors*); Sir Dingwall Bateson, (*President, Law Society*); Messrs John L. Carey, (*Executive Director, American Institute of Accountants*); W. K. Carter, Q.C.; Sheriff Sir Sidney Fox; Alderman and Sheriff Sir Harold Gillett, M.C.; Mr H. E. Gorick, C.B.E., (*President, Chartered Institute of Secretaries*); Sir Wyndham Hirst, C.B.E., (*Public Trustee*); Messrs E. Milner Holland, Q.C.; Thomas Lister, (*Chairman, Association of Scottish Chartered*

Accountants in London); Kenneth W. Mackinnon, Q.C.; E. H. S. Marker, C.B.; Dr A. H. Marshall, (*President, Institute of Municipal Treasurers and Accountants*); Lord Radcliffe, P.C., G.B.E.; Messrs Harry Routh, (*President, Chartered Insurance Institute*); F. W. H. Saunders, (*President, Institute of Cost and Works Accountants*); Sir Hartley Shawcross, P.C., Q.C., M.P.; Messrs John L. Somerville, (*President of the Institute of Chartered Accountants of Scotland*); F. Heyworth Talbot, Q.C.; Sir Bernard White, K.B.E., (*Chief Registrar Friendly Societies*); Mr Francis Whitmore, (*City Editor, 'Daily Telegraph'*).

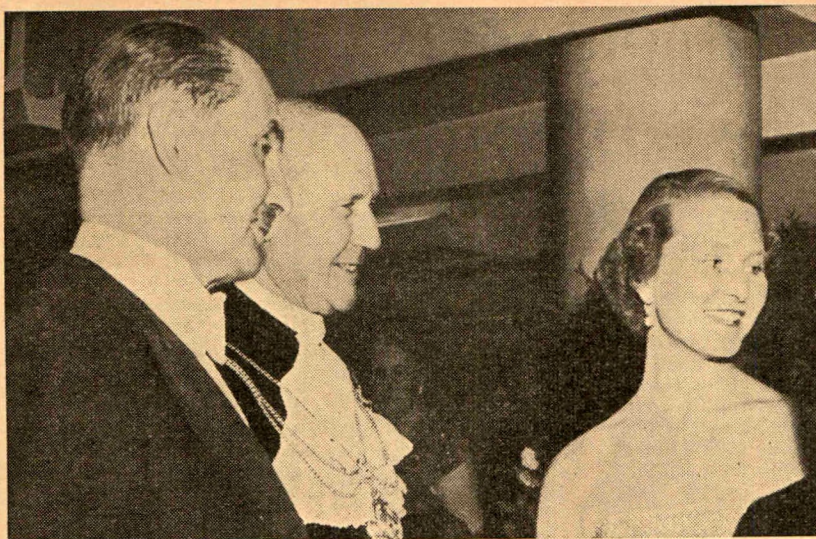
Reception by the President, Mr James Blakey, F.C.A., and Mrs Blakey, was followed by a cabaret, the artists being Shirley Abicair, Vic Oliver, Boscoe Holder and his Caribbean Dancers, and the Flying Dexters. Dancing to the music of Sydney Jerome and his Café Continental Orchestra continued until 1 a.m.



Left to right: Mr John L. Somerville, F.R.S.E., C.A., President, The Institute of Chartered Accountants of Scotland; Mr T. B. Robson, M.B.E., M.A., F.C.A., Immediate Past President, The Institute of Chartered Accountants in England and Wales; Lord Radcliffe, P.C., G.B.E.



Left to right: Mr James Blakey, President of The Institute of Chartered Accountants in England and Wales; Mrs Blakey; Sir Bernhard H. Binder, F.C.A.; Sir Hartley W. Shawcross, P.C., Q.C., M.P.



Left to right: Mr. C. U. Peat, M.C., M.A., F.C.A.; Alderman and Sheriff, Sir Harold Gillett, M.C., F.C.A.; Miss Peat.



Left to right: Mrs Blakey; Mr Herbert Sutherst, F.C.A., of Manchester, and Mrs Sutherst.



Left to right: Mrs Blakey; Mr Blakey; Mrs Gilbert D. Shepherd; Mr Gilbert D. Shepherd, M.B.E., F.C.A.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council, held on Wednesday, July 8th, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. Hamilton Baynes, Sir Bernhard Binder, Messrs C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, W. S. Carrington, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, Sir Harold Gillett, M.C., Mr P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs W. H. Lawson, C.B.E., S. J. Pears, C. U. Peat, M.C., L. W. Robson, T. B. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs E. F. G. Whinney, R. P. Winter, M.C., with the Secretary and Assistant Secretaries.

Death of Mr Tom Walton, F.C.A.

The President, when reporting the death of Mr Tom Walton to the Council, said:

Gentlemen,

I have the sad duty of informing the Council of the death of our old friend, Tom Walton, which occurred on Monday, the 6th instant. Tom Walton was elected to the Council in 1926 as a Manchester representative and was Vice-President from 1938 to 1942. Twenty-seven years of faithful service to the Institute is a record of which to be proud.

To those of us who knew him well, there were two attributes of character which stand out. He was essentially a kindly man ever ready to help and advise, especially those of the younger generation. This was exemplified at our last Council meeting by his spontaneous and charmingly worded support of my election as President.

He also had great fortitude. Last Friday I received a letter from him which showed that he was well aware of his grave condition which he met with courage. In that letter he asked that he might be allowed to remain on the Council for the short time that remained to him, provided that it would cause no inconvenience. I immediately replied that I was sure that it would be the Council's wish to accede to his request.

Gentlemen, knowing him so well over a great number of years, I am sure that he would not wish us to mourn for him unduly and we have the consolation that by the suddenness of his end he has been spared much pain.

Arrangements have been made for the Council to be represented at his funeral and on your behalf a letter of deep sympathy has been sent to his family.

I ask you to stand with me in token of our respect and affection.

Sir Harold Gillett, M.C.

Sir Harold Gillett was congratulated by the Council on his having received the honour of knighthood.

Exemption from the Preliminary Examination
Four applications under bye-law 79 for exemption from the Preliminary examination were acceded to.

Reduction in Period of Service under Articles
Three applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Exemption from the Intermediate Examination
Three applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to.

Final Examination

One application under bye-law 86 for permission to sit an earlier Final examination was acceded to.

Articled Clerks in Industrial Organizations

Two applications under bye-law 58 (c) from articled clerks to serve a part of their articles in an industrial organization were acceded to.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-seven associates who have commenced to practise:

Bales, Edward; 1952, A.C.A.; 167 Watt Lane, Sheffield, 10.
Barlow, Kenneth Charles; 1953, A.C.A.; 17 Castle Way, Hanworth, Middlesex.
Beckman, John Neville; 1951, A.C.A.; 44 West Bank, Stamford Hill, London, N16.
Churchill, Richard Jetton, M.A.; 1953, A.C.A.; (*Bolton, Wawn & Co), 48 West Sunnyside, Sunderland, and at Newcastle upon Tyne.
Davies, Graham Henry Duffield; 1950, A.C.A.; (Jones, Robathan, Thompson & Co), 24 King Street, Carmarthen, and at Cardiff, Cardigan, Chatteris, Chepstow, London, Newport (Mon.) and Tenby.
Dick, George William; 1952, A.C.A.; 49 John Clay Street, South Shields.
Duffin, Arthur Aubrey; 1951, A.C.A.; (*Reeve & Duffin), 8 Shepperson Street, Derby Road, Nottingham.
Gate, Gordon William; 1953, A.C.A.; 29 Southcliff Park, Clacton-on-Sea.
Germin, William Joseph; 1949, A.C.A.; (Germin & Co), 67 Watling Street, London, EC4.
Hackney, Bertram Stanley; 1937, A.C.A.; (Fisher & Co), 33 Lancaster Road, Birkdale, Southport.
Harris, David Burnsall, M.A.; 1948, A.C.A.; 39 Hillside Road, Northwood, Middlesex.
Hewitt, John Herbert; 1951, A.C.A.; (Mellors, Basden & Mellors), 1 King John's Chambers, Bridlesmith Gate, Nottingham, and at Manchester.
Hubbard, Douglas Henry; 1937, A.C.A.; (*Roberts, Legge, Hubbard & Co), 3 Rumford Place, Liverpool, 3.
Irwin, Ronald Henry; 1950, A.C.A.; 19 Rutland Road, Wanstead, London, E11.
Leigh, Emmanuel Harold; 1953, A.C.A.; (Emmanuel Leigh & Co), 4 Linthorpe Road, London, N16.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Lockley, Donald Osborne; 1951, A.C.A.; 14 Liverpool Road, Chester.
 Mackey, William Gawen; 1949, A.C.A.; (Humble & Glenton), 4 Cloth Market, Newcastle upon Tyne, 1.
 Maslo, Abraham, B.COM.; 1953, A.C.A.; Balfour House, Finsbury Pavement, London, EC2.
 Miller, Claude Cecil, B.COM.; 1933, A.C.A.; 33 Palace Street, Westminster, London, SW1.
 Pearson, Donald; 1948, A.C.A.; (Theodore B. Jones & Co), St Andrews Chambers, 21 Park Row, Leeds, 1.
 Pollard, James; 1932, A.C.A.; (Hopkinson & Pollard), Market Chambers, Accrington.
 Pragnell, Thomas Michael; 1951, A.C.A.; (Mellors, Basden & Mellors), 1 King John's Chambers, Bridlesmith Gate, Nottingham, and at Manchester.
 Singer, Harry Bruce; 1953, A.C.A.; (G. K. Singer & Son), Wyndham Chambers, 31 Wyndham Street, Bridgend, Glamorgan.
 Stewart, Patrick Robert Nesbitt, M.C., T.D.; 1947, A.C.A.; (Mellors, Basden & Mellors), 1 King John's Chambers, Bridlesmith Gate, Nottingham, and at Manchester.
 Sutton, Edwin Frederick Lawrence; 1950, A.C.A.; (Sandeman & Sutton), 10 Cumberland Place, Southampton.
 Wilkinson, Donald; 1953, A.C.A.; (*Thomas Wilkinson & Son), Hepworths Chambers, Horse Shoe Corner, Lancaster.
 Wood, Charles Harvey Whitney, B.SC.(ECON.); 1949, A.C.A.; 9a Castle Street, Shrewsbury.

(2) That five associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That two associates be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 31).

A list of those who complete their fellowship or membership before July 21st, will appear in *The Accountant* of July 25th, 1953.

Election to the Council

Mr Redvers Boulton Leech, M.B.E., T.D., F.C.A., Coventry, was elected a member of the Council to fill the vacancy caused by the resignation of Mr H. B. T. Wilde, F.C.A., Birmingham.

Members' Handbook

A second pamphlet of supplements to the members' handbook (supplements numbers 42 to 97) was

approved for issue to all members of the Institute. (The issue is expected to take place towards the end of July 1953.)

London and District Society of Chartered Accountants

Messrs D. A. Clarke, G. L. C. Touche and E. F. G. Whinney were appointed representatives of the Council on the committee of the London and District Society of Chartered Accountants for the ensuing year.

Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Committee	Chairman	Vice-Chairman
Applications	L. W. Robson	G. F. Saunders
Disciplinary	Sir H. M. Barton	G. D. Shepherd
District Societies	E. D. Taylor	A. S. H. Dicker
Finance	E. D. Taylor	G. L. C. Touche
General Purposes	H. G. Ash	S. W. Cornwell
Investigation	C. W. Boyce	Sir R. Kettle
Library	A. D. Walker	P. F. Carpenter
Parliamentary and Law	W. H. Lawson	{ W. S. Carrington G. F. Saunders

Registration of Articles

The Secretary reported that forty-six articles of clerkship were registered during the month of June, 1953 as compared with thirty-four in the previous June.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Richard Victor Cable, A.C.A., Willenhall.
 „ Ronald Dryden, F.C.A., Manchester.
 „ John Ellison, F.C.A., Birmingham.
 „ Thomas Seed, F.C.A., Manchester.
 „ John Walter Ogle Wilkinson, F.C.A., London.
 „ Roland Yorke, A.C.A., Tipton.

NOTES AND NOTICES

Personal

MISS ETHEL WATTS, F.C.A., of 7 Victoria Street, London, SW1, announces that she has taken into partnership Miss JOYCE EDWARDS, A.C.A., as from July 1st, 1953. The practice will be continued under the name of E. WATTS & Co.

MESSRS GEORGE A. TOUCHE & Co, announce the removal of their Montreal offices from 465 St John Street to Coristine Building (Fourth Floor), 410 St Nicholas Street, as from July 1st, 1953.

MESSRS WALTON, WATTS & Co, Chartered Accountants, of Chancery Chambers, 55 Brown Street, Manchester, 2, regret to announce that Mr TOM WALTON, F.C.A., their senior partner and the founder of the firm, died on July 6th, 1953. The practice will be continued at the same address and under the same style by the surviving partners

Messrs D. N. WALTON, F.C.A., H. B. VANSTONE, F.C.A., H. G. WALTON, M.A., A.C.A., and C. YATES, A.C.A., A.S.A.A.

MESSRS PRICE WATERHOUSE & Co, of 3 Frederick's Place, Old Jewry, London, EC2, announce that they have admitted to partnership Mr T. R. T. BUCKNILL, A.C.A., who has been a member of their London staff since 1936.

MESSRS PRICE WATERHOUSE & Co deeply regret to announce the sudden death of their partner, Mr DENZIL ERNEST DARKER, F.C.A., which occurred last Tuesday.

Professional Note

Mr Thomas Grant, C.A., secretary of the India Tyre & Rubber Co Ltd, has been appointed a director of the company.

Obituary**MICHAEL ARTHUR CORLEY, A.C.A.**

We regret to record the death on July 5th as a result of a motor accident, of Mr Michael A. Corley, A.C.A., at the age of 24.

Mr Corley was successful in passing the Final examination of the Institute in November 1950, having had his military service deferred in order to complete his studies. He had returned to his professional career with Messrs Smailes, Holtby and Gray, Chartered Accountants, Hull, last April.

WILLIAM CECIL GUILER, A.C.A.

We regret to record the sudden death at Drogheda on July 8th of Mr W. C. Guiler, A.C.A.

Mr Guiler was admitted to membership of The Institute of Chartered Accountants in Ireland as an associate not in practice in 1917. His whole career since qualifying had been spent with the Greenmount & Boyne Linen Co Ltd, which he joined thirty-seven years ago as secretary-accountant. At the time of his death he was managing director.

Mr Guiler was a Past-President of the Drogheda Chamber of Commerce, and a member of the local Rotary Club and Masonic Order.

Board of Trade's 'C.R.E. Industries Branch'

The Industries Branch of the Board of Trade's Commercial Relations and Exports Department will move to Lacon House, Theobald's Road, London, WC1, next Tuesday. The new telephone number will be Chancery 4411. At the same time its title will be changed to 'Export Services Branch'. This title better describes the functions of the branch which will be unchanged, namely, to help United Kingdom manufacturers to find representatives or agents abroad; to assist United Kingdom business men going abroad; to provide information about overseas markets and to advise industrial organizations and individual firms on the opportunities and methods of exporting their goods; to provide information about tariff and import licensing regulations abroad; and to distribute information of use to exporters through the Special Register Information Service.

Inquiries relating to trade policy between the United Kingdom and individual countries overseas, and to general policy not peculiar to trade with any one country, e.g. the General Agreement on Tariffs and Trade (G.A.T.T.), commercial treaties, and relations with O.E.E.C. should continue to be directed to the Commercial Relations and Exports Department, Horse Guards Avenue, Whitehall, London, SW1 (Trafalgar 8855).

Incorporated Accountant's Appointment in Ceylon

Mr D. Hartwell, A.S.A.A., an accountant in the Directorate of Contracts, Ministry of Works, recently sailed with his family for Ceylon, where he will help to train Ceylonese accountants in the Ceylon Department of Industries, which administers a number of state-owned factories producing cement, plywood, leather and glass.

Under the island's six-year development plan, major schemes are now being implemented for the production of paper, vegetable oils, ceramics, textiles, chemicals, iron and steel and mineral ores, and the accounting system of these State factories is being reorganized. As a result, the Ceylon Government has sought, through the Technical Co-operation Scheme of the Colombo Plan, the services of three expert accountants, and the appointment of Mr Hartwell, who is being seconded for a period of three years, is the first in response to this request.

The Association of Chartered Accountants In Egypt

The adjourned seventeenth annual general meeting of the Association of Chartered Accountants in Egypt was held in Cairo on June 5th, when the officers for the current year were elected as follows:

Chairman: Col. W. Mackenzie, O.B.E., C.A.

Members of the Committee: E. W. Cooper, F.C.A.; H. G. Griffin, A.C.A.; A. H. B. Harbord, A.C.A.; J. N. Pender, C.A.; F. R. W. Woods, F.C.A.

Hon. Secretary: O. Couldrey, M.C., F.C.A., P.O. Box 443, Cairo.

The Preston and District Chartered Accountant Students' Society

At the annual general meeting of The Preston and District Chartered Accountant Students' Society held recently, the following officers were elected for the year 1953-54:

President: D. G. Bee, F.C.A.

Vice-President: W. Hare, Jun., M.A., F.C.A.

Hon. Secretary: P. A. Sears, 13 Chapel Street, Preston.

Hon. Asst. Secretary: C. H. Billington.

Hon. Treasurer: J. W. Greenwood.

Hon. Asst. Treasurer: Miss V. J. Aldrich.

The Leicester and Northampton Chartered Accountant Students' Society

The Society's first outside social engagement since before the war was held on June 23rd, when the cricket eleven played a match with the Leicester Law Students' Society XI at Evington Valley.

The Chartered Accountant Students batted first and scoring quickly, made a total of 73 for 3 wickets in

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16 overs; then, helped by some brilliant fielding, they dismissed the Law Students for a score of 14 and won the match by 59 runs.

The Society's eleven was as follows: A. W. Pitkin; M. G. Freeman; M. T. Bromwich; P. R. Fewkes; J. F. Doleman; J. L. Holden (Capt.); H. P. Tyler; G. B. Della-Porta; B. A. Fewkes; A. C. MacDonald and I. R. Williams.

Actuaries' Investment Index

The following table is a brief extract from the latest figures furnished to subscribers to the Actuaries Investment Index, a service which is undertaken jointly by the Institute of Actuaries and the Faculty of Actuaries in Scotland.

Class of Security	No. of Securities	Price Indexes (Dec. 31st, 1938 = 100)				
		June 24th, 1952	Dec. 30th, 1952	April 28th, 1953	May 26th, 1953	June 30th, 1953
British Government 2½ per cent Consols	1	78.7	83.0	85.7	86.9	85.8
Home Corporations	4	75.6	80.9	82.9	82.7	83.7
Investment trust debentures	4	79.9	82.3	83.7	84.4	84.7
Industrial debentures:						
Productive, Distributive and miscellaneous ..	20	83.2	85.6	86.2	86.3	87.4
Investment trust preference shares:	8	79.0	83.5	83.6	84.0	84.2
Industrial preference shares:						
Productive, distributive and miscellaneous ..	64	86.7	89.6	91.4	91.7	92.4
Industrial ordinary shares:						
Productive	38	125.0	141.7	146.4	140.9	141.4
Distributive	23	156.7	188.0	212.9	205.8	210.5
Miscellaneous	39	102.4	114.4	112.8	110.2	112.0
All classes of industrial ordinary shares combined	100	120.8	138.0	143.0	138.6	140.4
Ordinary shares:						
Banks and discount companies	10	79.9	87.5	93.5	93.1	94.9
Insurance companies	10	100.4	110.8	120.8	121.1	118.9
Investment trust companies	9	126.1	141.1	153.9	150.7	151.6

Construction: Geometric average, accrued interest in fixed interest securities and bonus issues allowed for.

'Productive': Aircraft, building, cotton, electrical manufacturing, etc.

'Distributive': Shipping, stores and catering.

'Miscellaneous': Companies not included under any other heading.

Accountants' Fees and Profits, by R. Sproull, C.A.

We are informed by Professional & Trade Books Ltd that they are now the publishers of *Accountants' Fees and Profits*, by R. Sproull, C.A.

Our Contemporaries

THE ACCOUNTANTS JOURNAL. (July.)

THE ACCOUNTANTS' MAGAZINE. (July.)

THE ACCOUNTANTS' JOURNAL. (Wellington.) (April.)

'Standard costs in operation', by D. O. Walker, B.Com.,

A.R.A.N.Z.

LOCAL GOVERNMENT FINANCE. (July.)

THE LAW SOCIETY'S GAZETTE. (July.)

THE ACCOUNTANTS' JOURNAL. (Manila.) (March.)
SECRETARIES' CHRONICLE. (July.)
CANADIAN TAX JOURNAL. (Toronto.) (May-June.)
THE CANADIAN CHARTERED ACCOUNTANT TAX REVIEW. (Toronto.) (May.)
N.A.C.A. BULLETIN. (New York.) (June.)
THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (April.) 'How can the cost accountant meet management's cost requirements?' by R. G. Compton.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF JULY 21ST, 1928

Extract from a letter to the Editor.

Accountants and the Public

On the point of the value of the apprenticeship system there probably always will be differences of opinion. Many Chartered men, I believe, are dissatisfied with it, as an unscrupulous principal could make it merely a means of securing cheap assistance for the "donkey-work" of the office, without giving the youngster under his charge the same scope which comes to an unarticled clerk in many another office.

With regard to examinations, I think that if your correspondent had had the experience of coaching candidates for the various accountancy examinations he would admit that the candidates entering for those of the junior bodies cannot be safely trained to a standard lower than that of those taking the examinations of the senior societies. This is a fact drawn from experience.

I think that "Old Stager" provides his own answer to the problem of how it is that all the "plums" go to Chartered Accountants. Do financial backing, social standing and the semi-official inference of the term "Chartered" count for nothing? But if the wealthy sleep at the Savoy or the Ritz, surely it doesn't follow that one cannot get a comfortable bed in Bloomsbury.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* JULY 18TH, 1878

Extract from a letter to the Editor

Deductions for Income Tax

SIR,—I find that a very strange discrepancy in practice appears to exist with regard to the deduction of income tax on dividends, interest, &c., for the six months ending 30th June last. The English railway companies generally deduct 4d. in the pound, being at the rate of 3d. in the pound for the three months ending 5th April, 1878, and 5d. in the pound for the three months ending 30th June. While the Indian railway companies, the agents of foreign governments, and the Bank of England deduct 5d. in the pound from the dividends for the same period. . . .

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The Accountant

ESTABLISHED 1874

JULY 25TH, 1953

VOL. CXXIX. NO. 4101

CONTENTS

Leading Articles	<i>Page</i>
Accountants' Working Papers	89
Cheaper Litigation	91
Special Articles	
Mechanization: A Brewery Company's Accounting System by A. G. Thomson	92
The Accountant and the Farmer - IV by R. W. Smith, O.B.E., T.D., F.C.A.	94
Stock Values	
Discussion meeting of The London and District Society of Chartered Accountants	97
Weekly Notes	106
Finance and Commerce	
The London County Freehold and Leasehold Properties Limited - Ocean Coal & Wilsons Ltd - Money Market	108
Correspondence	111
Sir Harold Howitt Honoured	113
National Insurance in 1952	114
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Associates elected to Fellowship; Exam. Results - Personal - Obituary - The Society of Incorporated Accountants and Auditors - Seventh International Congress on Accounting - London and District Society of Chartered Accountants - Board of Trade Annual Report on Companies - Annotated Tax Cases - Seventy-five Years Ago	115
The Society of Incorporated Accountants and Auditors	
Results of Examinations held in May 1953	117
The Institute of Municipal Treasurers and Accountants	
Results of Examinations held in May 1953	120

ACCOUNTANTS' WORKING PAPERS

WHEN a practising accountant prepares accounts for his client, he usually brings into existence not only the final accounts themselves but also a quantity of notes, memoranda and calculations usually referred to as working papers. Do these belong to him or to his client?

Although this apparently simple question was answered in 1927 in the United States of America, it was not until this month that the matter was judicially settled in this country. In *Ipswich Mills v. William Dillon and Another*, decided in the Supreme Court of Massachusetts¹ the defendants, who practised as accountants in partnership, had acted for the plaintiff in a Federal tax investigation. The plaintiff sued them for the return of *inter alia* office copies of the plaintiff's tax return and the defendants' work sheets in connection with the investigation. It was held, however, that these documents remained the property of the defendants.

In *Chantrey Martin & Co v. Martin*² the point arose in proceedings brought by a firm of accountants against their former audit clerk for one month's salary in lieu of notice and for salary which had been paid to him in advance.

The rules of the Supreme Court empower a litigant to apply at a certain stage of the proceedings for an order that the other party produce for him such documents in the other party's possession or power, 'relating to the matter in question as the Court shall think right'.

The defendant applied under this rule for production of the documents held by the plaintiffs in connection with the preparation of a client company's accounts, these documents being relevant.

For the purposes of the rule, 'possession or power' has been held to be equivalent to the sole property in the documents so that the rule would not apply to papers in the plaintiffs' possession as agents or as joint owners with someone else.

The plaintiffs objected to producing the documents, on the ground that they were the property of the client company, and were in their custody solely as the company's accountants. They also objected that even if the documents were their property, they embodied information which was the subject of professional confidence as between the plaintiffs and the client company, and production, with the consequent disclosure of the contents, would be a breach by the plaintiffs of their duty to the client company. The QUEEN'S BENCH MASTER ordered production and the plaintiffs appealed to MR JUSTICE BARRY, who reversed the MASTER'S decision. He took the view that the working papers

¹ *The Accountant*, August 6th, 1927, page 195.

² *The Times*, July 15th, 1953.

were the property of the company. The defendant appealed successfully to the Court of Appeal. Production of the working papers was ordered, but the defendant and his solicitors were required to give an undertaking not to divulge the contents to any person other than for the purposes of the present litigation and not to use the information for any collateral purpose. No order was made for production of the company's ledgers or of the correspondence with the Inland Revenue.

MR JUSTICE BARRY, whose decision was reversed, had relied on *Gibbon v. Pearse*¹. In that case a building owner had employed an architect to carry out alterations. The architect had prepared plans, supervised the work, and been paid, but had refused to hand over the plans, claiming the benefit of an alleged custom of his profession. The Court of Appeal, applying *Ebdy v. M'Gowan*², held that if there was such a custom it was unreasonable, and the architect was ordered to hand over the plans. LORD JUSTICE COZENS-HARDY said of the building owner:

'Unless he has the plans, how is he to know where the drains, the flues, and the other things are?

It is a far cry from those plans to a solicitor's drafts, but his LORDSHIP observed that there was no distinction between the case before him and that of the solicitor in *ex parte Horsfall*³.

'In that case, as in this, there was a contract for the performance of certain work. There were things which were necessary for the completion of the actual deed of conveyance, which was what the parties bargained for, and though a custom was set up by the solicitor of a right on his part to retain drafts and copies of deed and documents the originals of which he was admittedly bound to deliver up, the Court decided that the client who had paid for them had a right to the possession of them.'

The above two cases must be distinguished from *London School Board v. Northcroft*⁴ and *Leicester County Council v. Michael Faraday and Partners Ltd*⁵.

In the first the plaintiffs sued a firm of quantity

surveyors for the delivery of bills of quantities, dimensions and abstracts which they had prepared during their employment by the plaintiffs. MR JUSTICE A. L. SMITH said, at page 149:

'Now, I should like to know how it can be said that what I call the private memoranda, which were made by Messrs Northcroft for the purpose of framing that which ultimately became the property of the plaintiffs, namely the bill of quantities, ever became the property of the plaintiffs. The paper belonged to Messrs Northcroft, the ink belonged to Messrs Northcroft, and the brains that put the calculations on the paper belonged to Messrs Northcroft, and I want to know how that document which came into existence ever became the property of the plaintiffs. In my judgment it never did.'

This decision was applied in the *Leicester* case where the defendants had been employed by the plaintiffs as rating valuers. The plaintiffs sought, after the contractual relationship had ceased, to obtain the defendants' inspection notes, valuation sheets, summaries and plans relating to various properties, together with correspondence notes and correspondence with the railway assessment authority. With the exception of the correspondence they were unsuccessful.

LORD JUSTICE MACKINNON held that *Gibbon v. Pearse* was radically different in that it was a matter of principal and agent.

'If an agent brings into existence certain documents while in the employment of his principal, they are the principal's documents and the principal can claim that the agent should hand them over, but the present case is emphatically not one of principal and agent. It is a case of the relation between a client and a professional man to whom the client resorts for advice.'

A leading article in *The Accountant* on August 6th, 1927, said:

'If an accountant were obliged to give up, at the conclusion of his engagement, all the material necessary for his defence, his position would be unenviable if the accuracy or quality of his work were afterwards brought into question. . . . The working papers are the means by which the result is accomplished. It seems, therefore, to follow that, in the absence of special provisions in the contract of engagement, the delivery of the result is sufficient discharge, and that the working papers remain both in the possession and the ownership of the accountant.'

The article went on to emphasize that this did not mean that the accountant could disclose the papers to third parties.

¹ [1905] 1 K.B. 810.

² *The Times*, November 17th, 1870.

³ (1827) 7 B. & C. 528.

⁴ (1889) *Hudson's Building Contracts*, 4th Edn. vol. ii, p. 147.

⁵ [1941] 2 K.B. 205.

CHEAPER LITIGATION

WHEN the family of a wealthy testator composed their differences about his will, instead of going to law, one of their legal advisers is said to have complained bitterly that the whole of the estate was going to be squandered on the beneficiaries. Apocryphal as the story is, it gives point to the complaint that litigation is too expensive.

In April 1947 the then LORD CHANCELLOR appointed a strong committee under the chairmanship of SIR RAYMOND EVERSHERD, to inquire into the practice and procedure of the Supreme Court and to consider reforms for the purpose of reducing the cost of litigation and securing greater efficiency and expedition in the dispatch of business. Its final report was made in May 1953 and has now been published¹. It calls for a new approach to litigation, divesting it of those traditional characteristics which are expensive to litigants.

The report lays great stress on the need for all concerned, including Her Majesty's judges, to become 'costs conscious'. It adds that where wealthy undertakings are involved in proceedings the expense of which will be deductible for taxation, there is a tendency to extravagance.

The report is the outcome of some 400 meetings of twenty-one sub-committees and forty meetings of the full committee. It acknowledges that there is no magic key which will open the door to cheap and simple administration of the law and which at the same time will preserve the high reputation of British justice. The subject is highly complicated and technical, and the suggested reforms are in the main equally so.

One recommendation which will command wide support is that appellants from the High Court should be able to 'leap-frog' the Court of Appeal in certain cases and go straight to the House of Lords where:

- (a) the subject of the appeal was essential to the determination of the cause;
- (b) the question was of substantial legal or public importance and *either*:
 - (i) covered by an earlier decision of the Court of Appeal; or
 - (ii) a question of construction of a statute; and
- (c) the question had already been fully argued.

The committee rejected a suggestion that tax

appeals from the Commissioners should go straight to the Court of Appeal. It did so for two reasons. The proceedings before the Commissioners are frequently informal and:

'the real point of difficulty scarcely emerges at this stage. Only when the draft case prepared by the Commissioners gets into the hands of counsel for the parties does the question of law which the Court is to decide become crystallized'.

The second reason is the fact that over 50 per cent of Revenue cases never go to the Court of Appeal. The report adds that the Revenue case is the one most likely to benefit from the committee's proposal for 'leap-frogging'.

A suggestion that there be a right of appeal from Commissioners on a question of fact was also rejected, the committee pointing out that its task was to reduce costs, not to increase them.

Proposals are made in the report for facilities for litigation at the public expense where a case involves a point of law of exceptional public interest. Subject to this, the report rejects a suggestion that the Crown should bear the cost of Revenue appeals but it approves and encourages the present practice under which the Revenue bears the taxpayer's costs as a matter of grace where the appeal is brought by the Revenue for the purpose of obtaining a ruling for their own convenience and the taxpayer is of modest means or the amount at stake is small.

When the committee was appointed, tax appeals were heard in the King's Bench Division and it was suggested that they be transferred to the Chancery Division. Almost everyone the committee consulted was opposed to this, but in February 1950, the change was made. It was dictated by a need to reduce the then heavy pressure on King's Bench judges.

A proposal was made that in estate duty appeals there should be provision for a body similar to the General or Special Commissioners. Although not entirely satisfied with the present system the committee bowed to the weight of opinion unfavourable to the proposal, but suggested that consideration be given to the establishment of a body to deal with disputes as to the valuation of shares in private companies. Certainly no one can give any convincing argument that the present practice is satisfactory.

¹ Cmd. 8878. H.M.S.O. 11s net.

MECHANIZATION

A BREWERY COMPANY'S ACCOUNTING SYSTEM

by A. G. THOMSON

TO achieve maximum efficiency in all departments, a large brewery company has been engaged for several years on an extensive programme of modernization. Like many other brewers, the company was old-fashioned in its accounting methods, which had altered very little during the period between the two world wars.

Twenty years ago there were no calculating machines of any description, the only machines in the accounts office being typewriters. The old methods were too slow for the company's management, which wanted more information and wanted it more quickly. Mechanization seemed the obvious answer, and apart from the need for greater speed and accuracy it offered the further advantages of cutting down overtime and reducing expenditure on staff.

A Large Accounting Problem

The company owns four breweries, nine bottling stores, twenty-seven offices and stores, and thirty selling agencies. Though primarily manufacturing, it also owns over three thousand licensed properties and of these it operates about four hundred public houses as managed houses. The head-office thus has a very large accounting problem. On the manufacturing side there are many thousand sales ledger accounts, 2,500 wage employees, over 1,000 salaried employees (including hotel managers), 3,000 nominal ledger accounts, and an equivalent number of bought ledger accounts.

The head office is also concerned with repairs to the licensed properties, ranging from the replacement of a slate to major decorations, and involving hundreds of accounts. Then there are the accounts for the managed houses, each of which is a separate retail organization. Further accounts are necessitated by the activities of the company's general and furniture stores which supply the whole group with cleaning materials, cutlery, stationery and many other requirements. There are also some twenty subsidiary companies whose figures must be consolidated to produce annual accounts; these look to the head office for advice on how to keep records and what methods to adopt. Much accounting assistance has recently been given to a new subsidiary of the company abroad. Finally,

the head office is responsible for all costing in connection with production, sales and export.

The company's system of budgetary control is quite straightforward. The amount of cash to be made available for the next twelve months is determined at the beginning of each financial year and that sum is spread on a planned basis to cover the whole of the organization's activities throughout that period. Each district manager is given considerable latitude as to how he spends his allocation, but in general, the head office maintains a close day-to-day control over all the company's expenditure throughout the year.

The Mechanical System

The mechanical system extends to four main offices, namely, the accounts department, the ledger office, and the cashier's and costing departments. These are all housed in a block of a former brewery, which has been converted into suites of well-appointed offices.

Though the accountancy system has not yet been fully mechanized and is still in a stage of evolution, the company has achieved many of its objectives and has carried out most of its programme. Sixteen accounting machines have been installed, two in the accountant's department and the others in the ledger office. Methods have been reorganized to take maximum advantage of mechanization, and as the various machines were installed the opportunity was taken to centralize sales entries.

So far the company has mechanized the sales ledger offices and the bought and nominal ledger offices; it has mechanized wages to the extent of reducing them from gross to net; and it has mechanized the payment side of the cash book and also cash receipts. An accounting machine has been installed in the new mechanized beer bottling store; besides issuing a credit note for empties returned by the customer, it automatically accumulates any totals needed by the accounts office. A machine for the managed house department and two machines for the rapid compilation of sales statistics have still to come.

Difficulties During Transition Period

Inevitably a number of difficulties were encountered during the transition period, but these were overcome and expenditure on mechanization

has been fully justified by the results achieved. Many customers objected at first to the new form in which statements were presented, but once they became accustomed to the change the mechanized system was accepted without further comment. Some of the company's own clerks were also inclined to take an unfavourable view of mechanization, but they soon realized that by using accounting machines overtime could be virtually eliminated; it has, in fact, been cut down from about five weeks a year to as many days.

For maximum speed and efficiency to be achieved, each machine should be operated by a staff of three, consisting of a supervisor, an operator, and an operator's assistant. One of the early troubles was that the most junior member of the team was given the job of pulling out of the tray the ledger account for each particular invoice, and since many customers have similar names, she sometimes pulled out the wrong account. This problem proved very troublesome but eventually a satisfactory solution was found.

Difficulties were encountered in the nominal ledger office because it was necessary for two machines to operate from the same ledger cards. The two operators had therefore to sit back to back and the 3,000 ledger cards had to be accessible to them both. The arrangement originally considered was a revolving cylindrical tray which moved round vertically, but this system had certain disadvantages. The stack of cards was bulky and could not conveniently be removed and put in a safe, while another objection was that any cards or guides which protruded were liable to be bent or broken as the tray revolved.

A Problem Solved

The problem was solved by a girl operator who suggested that the tray should revolve horizontally instead of vertically. This idea was adopted and a well-balanced holder of the type suggested was designed and made. The cards are much more visible and clips allow them to be spread out fanwise. When a girl pulls out a card she inserts a guide with her name on it, so that no errors or misunderstandings can occur. The trays are detachable and can be lifted out with their contents for removal to the safe.

Similar accounting machines are used for the bought ledgers and the system adopted in this office has eliminated the need for posting carbon. If a remittance advice is present it has not been paid. If it is absent the operative knows that it has either been paid or is in process of being paid.

Besides supervising the sales ledgers, the sales

ledger office produces any sales statistics required. As invoices are posted an analysis is made and at the end of the month this is posted on the customer's card. Thus the mechanical ledgers provide a cumulative analysis of the trade with every customer. A duplicate copy is dispatched to the district manager concerned. By altering a plate in the back, some of the machines in the sales ledger office can also be used for wages. The mechanized equipment includes an electric addressograph and if the demand is not too great the operator prints her own plates. The sales ledger office is rather a long way from the strong room, but this difficulty has been overcome by the use of portable safes in which ledger cards can be locked up for the night.

In the cash office a single operator has drawn up to 400 cheques a day on an electrically operated machine, which also does the book-keeping for this section. If the payment is a direct one which does not need to go through a bought ledger system, the machine will analyse it on as many cards as are required. All particulars are printed before the cheque is drawn and totals are automatically accumulated. The carbon copy is used as the cash book. The machine is equipped with a standard keyboard and the girl types the receipt, the cash book and the paying-in slip in a single operation.

Increase in Proportion of Female Labour

One effect of mechanization has been a further increase in the proportion of female labour. Before the war the accounts department was staffed entirely by male clerks, except for a few typists. Many clerks who were called up had to be replaced by women and mechanization has given a further impetus to the use of female labour. It was not easy to find girls near the head office who were capable of operating the accounting machines, which were entirely different from any machines used by other firms in the same district. The company had therefore to train the majority of its operators, many of whom were transferred from other departments.

Besides eliminating overtime, mechanization has enabled a greater volume of work to be handled by a smaller staff, though no employees have been dismissed through redundancy caused by the machines. In the main accountant's office, for example, two machines are doing analyses which previously could not have been attempted. One consequence is that in future results will be produced three times a year instead of twice; but for mechanization this would be impossible without a big increase in staff.

THE ACCOUNTANT AND THE FARMER—IV FARM ACCOUNTS: THE APPLICATION OF COSTING

by R. W. SMITH, O.B.E., T.D., F.C.A.

COSTING is now regarded as essential in even the smaller manufacturing businesses. It has fully proved its worth in the distributive and other trades, and the technique of management accounting is such that it has become a special study. It is therefore at first sight somewhat surprising that similar developments have not taken place on a wide scale in the agricultural industry. It is true that in theory there is nothing to prevent the application of detailed costings to agriculture, and the publication recently of a study of the subject by Mr L. W. Bolton, A.C.W.A., A.C.I.S., goes far to demonstrate the practical application. Certain sections of the industry have for some time developed costings of their own for research purposes and in connection with price agreements, but the subject has not so far found favour generally with the farming community.

One of the main reasons for this is that the industry, although one of the largest in the country, is organized—as we have seen in the first article of this series—in a large number of small units, mostly with very limited administrative and office facilities. The small farmer, even if he is convinced of the necessity of applying costings to his enterprise, is dubious about doing so because of the fear that he will be burdened still further with forms and statistical records to add to the many which already make such an inroad on his very limited time for office work.

It is the purpose of this final article to advance the case for applying costings to agriculture, but it is not the intention to embark on detailed instructions any more than in an earlier article it was intended to discuss in detail the farmer's book-keeping. At the same time it is important to underline some of the problems that must inevitably arise and to suggest possible methods of dealing with them.

A Proper Costing System Benefits Farming

There is ample evidence of the fact that a proper costing system can be of benefit to the industry, for the larger farming organizations which have adopted it are generally converted to the idea that once undertaken they continue to provide a benefit that can ill be dispensed with. It would be unwise to generalize, but just as the smaller manufacturing businesses have in this respect

followed the example set by their larger counterparts, so too the smaller agricultural business would do well to emulate those which are already convinced by practical application of the advantages of costing.

It is as well not to pursue the analogy of the manufacturing business too far. The principles of costing for agriculture will be basically the same as for any other industry, but just as we have already seen that the normal financial and accounting methods are fundamentally similar, there are special features which have to be taken into account and for which special considerations will have to be applied.

Perhaps the most important point to be remembered is that in farming there is not the same standard about the identity of the product. A manufacturer who produces a motor vehicle by mass production methods is quite certain that each one of a particular model is identical in every respect with its fellows and has taken up the same amount of labour, material and overhead expenses in its construction. There can never be such precise identity about the produce of the land. It is true that standards are laid down—for example, for the size, weight and characteristics of a bacon pig, that potatoes must riddle to a certain size, that wheat for milling must conform to certain conditions, or that milk must pass tests laid down for the particular grading. But there may be infinite variations of quality, all of which will satisfy these tests, and yet have an appreciable effect on the costings without necessarily affecting the selling price. With produce which is not subject to obligatory marketing standards the diversity is even greater. Some of these variations of quality may be capable of control, but others may be the result of the many factors which cannot be gauged in financial terms and which are subject to circumstances beyond the control of the farmer.

Costings and Policy

The use of costings will nevertheless prove immensely valuable in deciding on a general line of policy. They may show that under normal conditions one particular part of a farm is capable of producing a heavier crop of wheat than another, but that the greater gross revenue of the former is more than offset because that particular piece of land presents difficulties in the way of requiring

extra labour or has a transport problem which result in the net return being less than that from growing the wheat where the crop will be somewhat lighter. It is not suggested that the farmer will not himself realize this sooner or later – it may well be one of those pieces of information about a farm handed down by tradition – but the application of costings would in all probability disclose the fact within the course of a season or two instead of over a long cycle of years.

The second important distinction between the use of costings in agriculture and manufacturing is that the farmer is to a much greater extent dealing with selling prices and markets over which he can have very little control. There are, it is true, fixed and guaranteed prices for some agricultural products, but the probability is that these will tend to become fewer in the future, and even these are still subject to changes as a result of outside influences. Unless there is ever a return to the unspeakable pre-war spectacle of deliberate destruction of produce in order to maintain prices, there must inevitably be some fluctuation due to the influence of supply and demand. By this is not meant the practice often encountered of ploughing-in unsaleable produce so that its fertilizing value is not lost. There is, too, the increasing prospect of manufacturing foods by chemical and synthetic processes.

The Problem of Rotation

One of the most important aspects of costing for the manufacturer is to relate selling price to cost price and to fix the former, if this is possible, at a figure that will yield a profit. If, on the other hand, the selling price is forced down by the effect of competition or lack of demand, then the manufacturer has the advantage of his costings to indicate ways of economizing in production or in an extreme case stopping production altogether.

Neither of these possibilities can arise with the farmer. If he cannot produce at less than the agreed or market selling price, he cannot sell at an increased selling price, nor, once his production has reached the disposal stage, can he effect changes in his routine which will reduce his costs. It is important to remember that the manufacturer can always reduce his losses to a minimum and measurable figure by stopping production of an unprofitable line. Once the farmer has planned his season's project it must run full cycle. But in this example, as in the previous one, costing will give an advantage to one farm in comparison with the enterprise which has no system.

It is possible, for example, to calculate certain standard costs which will show that there are some types of produce which can never yield a profit on a particular farm or part of one. But the more important aspect is that the cost of production will be shown and the farmer will know the minimum selling price which he can afford to accept. How often do we hear the remark that the market price does not make it worth while to harvest and the produce has been ploughed in? If the price realized shows only a tiny margin over the cost of harvesting, transporting and selling, there is still an advantage to be gained, and without costing this small advantage might be missed.

Problem of Glut and Shortage

Related closely to this problem is the ever-present problem of glut and shortage. The farmer can regulate the volume of his production only in some respects and then only on a long-term basis. He is dealing largely with perishables which are not capable of being stored to meet a future shortage. There are, it is true, some products which can be stored for limited periods, and science is now vigorously tackling the problem of storing other types of produce. On the other hand, in most cases the industrial manufacturer can plan his production of an article for which there is only a seasonal demand in such a way that there is a steady flow of production planned to make the most economical use of the factory output. The finished article can be stored and released to the market at a time which is warranted by the demand; as a result there can be a far more even spread of direct and indirect costs.

The foregoing paragraphs demonstrate that whereas in manufacturing the effect of costings is to enable the manufacturer to regulate the quantity and quality of his output, this does not apply to the same extent in agriculture. The manufacturers' costings are positive, and can form the basis of comparatively short-term planning. Unless great care is exercised in the use of agricultural costings they can present a picture which will give a false sense of security or a quite unjustifiable panic. In the case of the large unit which is able to operate detailed costings this risk is not so great but the position must be regarded with reserve by the smaller unit.

It is also essential to bear in mind when designing a farm costing system that there is a multiplicity of transfers which must be calculated accurately if the results are not to be misleading. Obvious examples are the use of own straw and dung for composting, the value put into the soil

by folding sheep on to uncut greenstuff, the use of pasture and home-grown fodder for fattening, the manufacture of silage, and the use of home produced milk in raising pigs. Other examples are less obvious and there is a much greater variety of this kind of factor than in a manufacturing business. There have for generations been rule of thumb methods of making these calculations but greater accuracy is required under modern conditions of working.

The Farmers' Labour Bill

The greatest single item in the farmer's costs is his labour bill and it is in this field that the most interesting and valuable results are likely to become apparent. Labour costs can be allocated in manufacturing with a degree of simplicity that is not possible in agriculture.

Most labour in a factory is consistently employed in the same way for long periods, but the farm hand may be engaged in a dozen or more different tasks in the course of a working week and it is essential that there should be an accurate analysis of the costs in this respect. There is also the problem that farm labour is employed for much of the time in tasks which cannot be subject to detailed and continuous supervision by reason of the time and space factor, as opposed to the factory where labour is or should be under almost constant control. The discovery of inefficient work in a manufacturing business is by its very nature more rapidly and easily checked, the effects of inefficiency in farm labour may remain unseen for many months, and the degree of waste or spoilage that may result can be very great.

Much greater, too, is the problem of ensuring that labour is fully occupied on productive tasks. In addition to the normal problems arising from co-ordination there are the special problems arising from weather and other seasonal factors. Under ideal conditions, a particular task on a farm will take only a fraction of the time that will be necessary if conditions are adverse. The problem has to be reviewed to decide if it is better to continue with the work, albeit at greater cost, or to wait for more favourable conditions and use the labour less gainfully in the meantime, and weighed against the risk that the better conditions may arrive too late.

The proper analysis of labour costs will also show how much is being gained or lost in planning the routine of work. So many tasks on a farm involve movement of labour over distances which can never arise in a factory. So much has been discovered by the study of time and motion

factors in manufacturing where labour is confronted with only a fraction of the movement involved in farming, that it seems obvious that greater economies are likely to prove possible in the agricultural industry when this problem is fully investigated. How often do we see a farm tractor being driven without apparently performing any useful work at all? If the farmer were aware of the hourly cost of running a tractor it is certain that he would be far more searching in his inquiry about its daily use.

Need for a Simple System

The question will surely arise at this point as to how the farmer with restricted clerical facilities is going to grapple with the problems which have been presented in the foregoing few paragraphs. The difficulty is not so great as would seem at first. Much of the calculation involved is in fact carried out almost unconsciously by the farmer himself, the problem for the accountant is to produce for the farmer a simple system which will translate these almost instinctive calculations into valuable information and to draw the right inferences and so to influence improvements which would not otherwise become apparent.

Direct and indirect costs both continue to advance, some at an alarming rate, and there is continual pressure for wage increases for agricultural workers. The adjustments of guaranteed prices in the case of produce which is subject to price review do not keep pace with the advancing costs, and there is a noticeable tendency for the average selling prices of other produce to become easier. In the face of this, costing for agriculture seems to be no longer a luxury for the few, but rather a necessity in spite of the special problems that arise.

Conclusion

It is hoped that in these four short articles enough has been said to demonstrate the opportunities that exist to improve the economics of farming. That this should be possible is proved by the fact that produce which has to be transported many thousands of miles can often be imported into this country more cheaply than we can grow it here. The problem to be solved is to find how we can grow it for ourselves in such a way that the industry continues to attract the right type of man-power and capital. The agricultural industry of Britain must by all the evidence continue to expand its production, and to achieve this must be in a good state of financial and technical health. In helping to find the solution the accountant has an important part to play.

STOCK VALUES

AN ANIMATED DISCUSSION

A DISCUSSION on 'stock values' was held by the London and District Society of Chartered Accountants at the Institute on April 29th, 1953. Mr Douglas A. Clarke, LL.B., F.C.A., Chairman of the Society, was in the chair and introduced the opening speakers, Professor W. T. Baxter, B.COM., C.A., and Mr David Solomons, B.COM., A.C.A.

In doing so, he said: Ladies and gentlemen, a fortnight ago we had a most interesting evening when Professor Gower, of London University, came and addressed us on 'Companies and taxation'. This evening we are very glad to welcome Professor Baxter, Professor of Accounting at London University, who is himself a chartered accountant, a member of the Scottish Institute, and Mr David Solomons, also of London University, who is a member of our own Institute. Mr Solomons has for some years given us his help as a co-opted member of the London Regional Taxation and Research Committee, and has shared in the heavy work of that committee, particularly in relation to the memoranda submitted by the Institute to the Tucker Committee and to the Royal Commission on Income Tax.

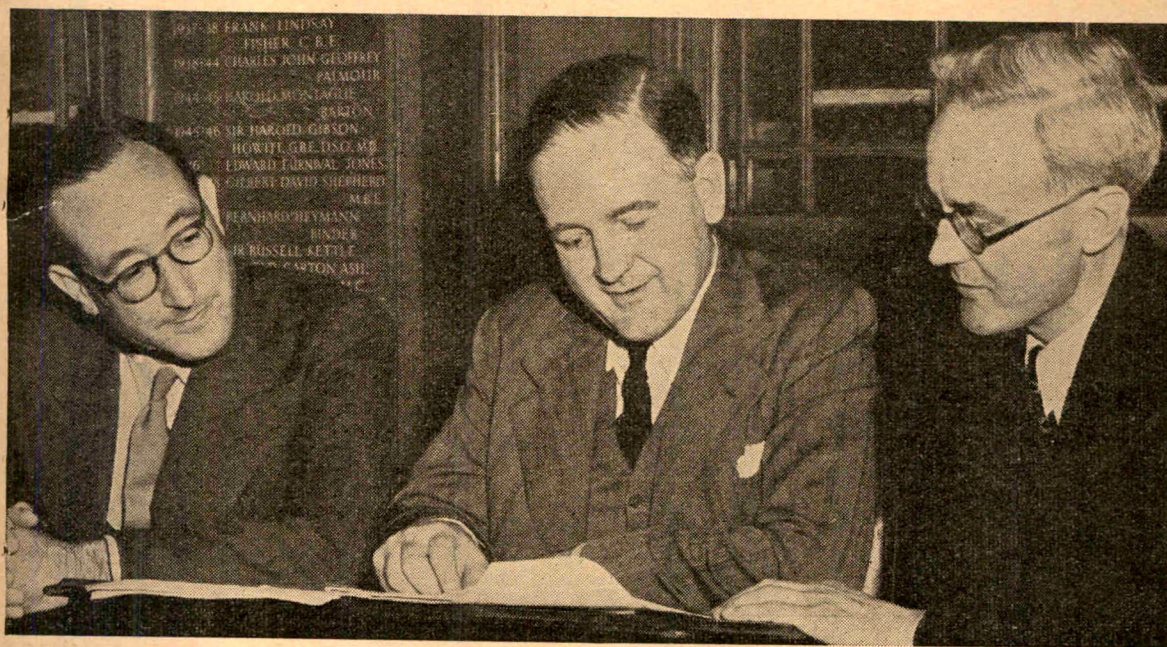
In the time available this evening we cannot hope to reach any fresh conclusions, but we do hope we shall have the benefit of new ideas from Professor Baxter and Mr Solomons and from the general body of members present. Professor Baxter and Mr

Solomons have a calling that enables them to take a wide general view which can take account of research and thought in this and other countries. Practising accountants and accountants in industry are called upon to use their judgment in applying general rules to the circumstances of particular trades and industries. Whether we are more interested in the mass of the general principles, or in the exceptional cases, or in the practical cases, we can all benefit from a discussion.

The First Speaker

Mr DAVID SOLOMONS: I am glad, Mr Chairman, that you have reminded the audience that this is a discussion and not a lecture. I take it that the main difference between a discussion and a lecture is that in a discussion the people on the platform do not have to be afraid to admit their ignorance, whereas a lecturer has to maintain a pose of omniscience.

I take it that we are all agreed, to start with, that the subject of stock valuation is a subject of extreme importance; if we were not all agreed upon that we should not be here. I think it would be a good starting point to remind ourselves of the number of different reasons why stock valuation is of importance. They are, of course, all connected with the measurement of business income and that subject in itself is important for a number of reasons.



Mr Douglas A. Clarke, LL.B., F.C.A., with Mr David Solomons, B.COM., A.C.A., on his right and Professor W. T. Baxter, B.COM., C.A., on his left.

First – and I put my points in this order quite intentionally – stock valuation and the measurement of business income I take to be important because of the managerial decisions that follow from it – managerial decisions about price-fixing, investment, and the like. I would put taxation second in importance, and the determination of dividends third in importance as a reason for considering the subject of stock valuation. Fourth, I should put the effect of what accountants do on such economic phenomena as the trade cycle, a subject which has interested economists quite a lot in recent years, and fifth in importance – importance, I mean, to the accountant and perhaps to the community as well – I would put the requirements of statisticians for the measurement of national income and the like. I have put these topics in this order on purpose.

It is obvious that to explore all the ramifications of this subject would take not one but many meetings. To make the task a little more manageable, I shall try to confine myself to problems not specially related to price-level changes, leaving Professor Baxter to take up these other aspects of the matter. Although a review of current accounting literature might well suggest the contrary, there are still some unsettled questions in accounting which have little or nothing to do with changes in the value of money.

Shortcomings of 'Cost or Market'

Let me say at the outset that I have never thought our conventional rule for valuing stocks – cost or market price, whichever is the lower – very satisfactory. Every term in this phrase – 'cost', 'market price' and 'lower' – is open to at least two, and in the case of 'cost' more than two, different interpretations, so that it is not at all as clear-cut as it purports to be. Moreover, I can see nothing logical in a rule which takes cognizance of market values when they are below cost, but refuses to recognize that they have any relevance when they are above cost. Again, the valuation of stock at cost has as its purpose, of course, the neutralization of uncompleted transactions – a purchase unmatched by a sale – so that operating income may be made up of profits and losses on completed transactions. Why, then, should the figure usually called 'cost of sales' reflect not only the cost of goods sold but also any unrealized losses in value which may have been suffered on goods not yet sold?

However, it is much easier to pick holes in accepted conventions than to suggest something better to put in their place. For my part, I should like to see a modification of our accepted methods of measuring income so as (a) to separate the profits or losses on manufacturing and selling operations from fluctuations in stock values; (b) to represent costs and revenues in the accounts in terms of monetary units of equivalent purchasing power; and (c) to recognize that to most people it is the current values of assets at the balance sheet date which are significant rather than facts about past costs.

It seems to me that we could come somewhere near

achieving these three desiderata if (1) for the purpose of measuring operating income, at least for management's own purposes, we consistently charged revenue with the cost of replacing goods used up during the period. Where a more or less constant quantity of stock was being held, and goods sold were being replaced fairly continuously as sales were made, this could be roughly achieved by valuing stock on a LIFO basis; and if (2) for the purpose of measuring capital gains and losses on holding stocks, we carried the difference between the LIFO value of stock and its current replacement cost at the balance sheet date to the debit or credit of a stock reserve account (according to whether LIFO was below or above current replacement cost). This stock reserve would be added to or deducted from stock in the balance sheet. The other side of these entries would be found in the non-operating section of the revenue account, which would thus bring in as a non-operating gain any increase in value of stock not caused by an increase in its quantity, and as a non-operating loss any decrease.

This proposal, I know, is thoroughly unorthodox, especially in that it brings into account unrealized gains as having equal standing with unrealized losses, though it does not, of course, regard them as necessarily distributable. I do not propose to develop this idea, which I really only bring forward in an attempt to blow away a little of the odour of sanctity which surrounds the dogma 'cost or market, whichever is the lower'. I believe that Professor Baxter will have a good deal to say about the use of stock reserves in a time of deflation. My own suggestion, however, is not specifically related to the problem of changing price levels, but could be defended as providing useful information even where the prices of the goods dealt in were changing relatively to other prices, without any change in the general value of money.

Meaning of 'Cost'

I now want to take up two points concerning the interpretation of 'cost or market'. One relates to the meaning of 'cost' and the other to the meaning of 'market'. What costs should the 'cost' of stock include? This question is not nearly such a simple one as it appears at first sight and I am sure that an investigation of the practice of any considerable number of businesses in this country would reveal some remarkable divergences. Certainly an investigation into the practice of 150 American firms by the N.A.C.A. in 1947 produced some striking results; for instance, the firms investigated were fairly evenly divided between those who did and those who did not include in the costs of inventories: (a) costs of dispatch of goods from factory (sometimes these costs represented costs of dispatch to warehouse, sometimes to customers); (b) costs of storing finished goods at factory; (c) research and development costs; (d) manufacturing royalties; (e) the expenses of the costing department, the purchasing department, and the wages office.

The difference of costing practice between firms can often be traced to differences of organization. Thus, if a particular administrative function is carried out at the factory, its cost is more likely to be included in the costs of stock than if it is exercised from some geographically separate head office. On the other hand, some expenses such as dispatch, which, of course, relate to goods which have been sold and which cannot therefore still be in stock, are often included in the costs of stock simply because all factory overheads are lumped together, and dispatch costs get charged into product costs along with all the others.

The general point which emerges is that there is room for much more care than is often exercised in distinguishing between costs which are properly chargeable to products and those which are properly chargeable to periods. But I would go much further than this and would argue that, for inventory valuation purposes, only those costs should be included in product costs which would not have been incurred if the units of product in stock at the balance sheet date had not been produced. This means, broadly speaking, that I would include only directly variable costs of production; all other costs I should charge to revenue in the period for which they were incurred.

Non-variable Expenses

I would support this view on two grounds. First, the allocation of fixed and semi-fixed expenses to units of product is a very arbitrary business, and can, in the wrong hands, lend itself to a manipulation of profits by the simple expedient of allocating much or little overhead to those products which have tended to accumulate in stock, according as the business wanted to overstate or understate its income. This risk is, perhaps, not very great. The more important ground for my view, which has of course been stated many times, and which is referred to in the preamble to the Institute's Recommendation X, is that the inclusion of a proportion of non-variable costs in inventories tends to make profits vary with the level of production rather than with the level of sales, and so runs counter to the accounting dictum that a profit is made only when goods are sold. So long as we stick to 'cost' as the general basis for valuing stocks, and take into account only realized profits, then I think we should exclude anything but the 'avoidable' or 'escapable' costs of producing or acquiring the goods actually in stock at the accounting date.

It is perhaps worth mentioning that while the Institute's recommendation on the valuation of stock neither approves nor disapproves of the exclusion of overheads from stock values, the American Institute's Bulletin No. 29 on inventory pricing states:

'As applied to inventories, cost means in principle the sum of the applicable expenditures and charges, directly or indirectly incurred in bringing an article to its existing condition and location.'

Moreover, it goes on to say:

'It should be recognized that the exclusion of all

overheads from inventory costs does not constitute an accepted accounting procedure.'

I cannot but think that this statement is regrettable.

Meaning of 'Market Value'

I now turn to that other international bone of contention, the definition of 'market price'. The Institute's view is, of course, that for the purpose of comparing cost with market values

'market value should be calculated by reference to the price at which it is estimated that the stock-in-trade can be realized, either in its existing condition or as incorporated in the product normally sold, after allowing for expenditure to be incurred before disposal'.

The American Institute's view, on the other hand, is that

'as used in the phrase "lower of cost or market", the term "market" means current replacement cost (by purchase or by reproduction, as the case may be) except that (1) market should not exceed the net realizable value (that is estimated selling price in the ordinary course of business, less reasonably predictable costs of completion and disposal), and (2) market should not be less than net realizable value reduced by an allowance for an approximately normal profit margin'.

You will remember that our own Institute justified its view that 'market' ought to mean 'market selling price' by arguing that

'the fact that at the time of valuation the goods could have been acquired at a sum less than their cost only indicates that the expected profit is less than it might have been had it been possible to acquire them at the accounting date - a possibility which often does not exist in view of the quantity held and of the fact that in many cases purchases have to be made for later delivery; the circumstance has not caused a trading loss but only indicates that the ultimate results under other conditions might have been better'.

I confess that I do not find this reasoning at all convincing, and the American view that 'market' should mean 'replacement cost' seems to me to be more soundly based. The problem of valuing stock only arises at all because of the necessity to allocate business income between arbitrary short periods of time, normally of twelve months. When stock is purchased in year 1 and sold in year 2, and the price of the goods (both buying and selling) has declined between the date of purchase and the end of year 1 so as to bring the then current buying price, but not the selling price, at the year end below the original cost of the goods, on our own Institute's view year 1 would show neither profit nor loss, and year 2 (if no further change in prices took place in that year) would show a less than normal profit. Does this fairly reflect the results of the two years' trading? It seems to me that it does not. It was in year 1 that the decline in value of the stock took place, and it is year 1, therefore, that should bear the stock loss. I do not see why year 2 should be made to show a less than normal profit, which it will do if we fail to write the stock

down at the end of year 1. In this matter, I think, it is the American Institute which is on the side of the angels, although in fairness I should add that there were three dissentient voices in the American Committee on Accounting Procedure on this point when Bulletin No. 29 was published.

Degree of Disclosure

I have time for only one more point, which really concerns the degree of disclosure as to methods of stock valuation in published accounts, rather than the methods of valuation themselves. I suppose most of us would agree that it is very difficult to interpret the results shown by a set of accounts without some knowledge of the methods of stock valuation which have been used. Yet the Companies Act requires no information to be given to shareholders about the way stock has been valued, unless there has been a change in the basis of valuation, or unless the stock is shown at more than its realizable value. I cannot see why balance sheets should be permitted to be less informative about stock values than they are about fixed assets values. The usual captions, such as 'as taken and valued by the management' or even 'at or under cost' are really quite unhelpful. It would be interesting to hear, in the course of discussion, how much further than this members are prepared to go in disclosing more information in their accounts than the present Eighth Schedules requires. (Applause.)

Professor Baxter's Views

THE CHAIRMAN: I will now ask Professor Baxter to speak.

PROFESSOR BAXTER: Mr Solomons has spoken about the rules for taking stock in any given year. But, whatever the rules in fact adopted, they will over a run of years (a whole trade cycle) tend to give a rhythm to stock values, and when stock is big, this rhythm may be sufficiently strong to rock the whole enterprise. Stock reserves are a means of restoring steadiness. Therefore, to round off my colleague's suggestions, I shall venture to discuss these reserves. You may probably feel that, where rising prices are concerned, the topic has already been aired *ad nauseam*. So I plan to say little about inflation, and to discuss instead what happens at the other side of the trade cycle, when prices come tumbling down.

As you well know, quite a number of companies already create stock reserves. My plea is for the rapid spread of this system, and for bolder use of the reserves during times of slump. Many firms, particularly those handling large stocks of raw materials, still seem to suffer from excessive fluctuations in profit; the recent history of the wool trade will no doubt come to your minds. These fluctuations are bad alike for investors, workers, and the general public, and a less pessimistic basis of valuing stock would have strong arguments on its side if it smoothed down the fluctuations. On the other hand, no accountant wants to give a false sense of security to the managements of firms that are running into

danger. So let us look again at our rules for valuing stock, on both the up-grade and the down-grade of the trade cycle, and see to what extent these two conflicting aims can be reconciled.

Suppose a man earns a salary of £1,000 a year and owns his house. Neither popular notions of what constitutes income nor the rules of accounting expect him to treat current changes in the house's value as part of his income. Assume, for instance, that prices rise for some years, and the house's value as a result goes up by £300 a year; then prices start to drop, and the house's value falls by £300 a year. We should think the man foolish if he counted his income as £1,300 on the up-grade of the price cycle and £700 on the down-grade. Such a system of income measurement would prompt him to cheerful and reckless overspending on the up-grade, and so eat into his capital. Then, when the price peak had passed, the system would cause him to switch to a spell of pessimism and retrenchment, during which he would tighten his own and his family's belts and would suffer considerable hardship – which would seem all the worse when compared with the carefree spending of the boom years. And if (as we assume) the man's salary of £1,000 runs on smoothly from year to year, these ups-and-downs of measured income, and style of living, would be quite uncalled for. Moreover, the damage would not stop at the man himself or even his dependants. His dramatic changes in outlay would tend to upset the people who sell him things – his grocer and fishmonger, and still more the suppliers of durable goods. If thousands of other men were also to measure income by his system, and to adjust their expenditure in the same erratic way, the combined effect would be very serious. Fortunately for us all, however, salary-earners do not usually include asset fluctuations in their incomes.

Business Profits when Prices Rise

Accountants will no doubt smile at this childish and misleading system of income calculation. Yet do we not use something uncommonly like it to measure business profits where stocks are owned? In such cases, and also where wasting plant is held, asset fluctuations do seem to colour profits. The explanation is as follows: assume a firm starts a year with a capital of £1,000, all of which is used to buy stock. Thereafter, prices rise – say, till the buying price of the stocks goes up to £1,300. The accounts behave admirably so long as all the stock remains unsold; no stock appreciation is added to profit. But when the stock is sold, appreciation gets into the accounts, though its advent is not recognized and its size is not separately measured. An asset valued at 1,000 pre-inflation £s is replaced by other assets – the sale proceeds – valued in the depreciated £s now current. Revenue account compares a historic cost of 1,000 good £s with proceeds measured in inferior £s; unless the account is corrected – say, by making a £300 stock reserve to show that current (i.e. replacement) cost has risen from £1,000 to £1,300 – the apprecia-

tion is treated automatically as a realized gain, and so swells divisible profit. Note that this result follows whether or not the sale proceeds are in fact used to replace stock; they may instead be left as cash, or spent, e.g. on plant or buildings. Whatever shape the assets take, the accountant has to compare two balance sheet figures that are expressed in unlike £s:

Capital (in £s of opening date) £1,000;

Assets (in £s of later date) £1,300.

If the disparity of £300 is not to be classed as a trading gain, we must recognize that we are comparing two unlike units, and take corrective steps. We can either:

- (a) Deduct £300 from the assets, so in effect revaluing them in opening instead of current £s. This is what LIFO seeks to do; however, as the assets now consist wholly or partly of things other than stock, LIFO fails to provide the whole £300; or
- (b) Add £300 to capital, so revaluing it in terms of more up-to-date £s. This is what a 'stock replacement reserve' in effect does; we may think of it as revaluing stock at higher current prices just before the sale is made and using the appreciation to write-up capital.

To me, (b) seems the better method. If we must revalue, surely we should prefer up-to-date units rather than ancient ones.

Business Profits when Prices Fall

Next, let us consider what happens when prices fall. For symmetry, let us reverse our previous figures by taking a firm that starts off the year with £1,300 of capital and reserves. That sum is then invested in stock, while prices are still high; and the stock is held for some months, during which prices collapse. After the fall, stock can be replaced for only £1,000; but the trading account recording its sale is, by our normal rules, charged with the full historic cost of £1,300 – i.e. divisible profits are reduced by a £300 charge for depreciation in the money-value of assets. To work henceforth on the physical scale that was originally planned, the firm now needs a capital and assets, not of £1,300, but of only £1,000; when accounting procedure forces the firm to adopt the £1,300 level, real capital is not being maintained but expanded. Such an expansion may sometimes be in the owners' best interest. This, however, is a matter that they should decide with their eyes open; they ought not to be forced blindfold to slash consumption and to save far more than last year.

Various less painful ways have been suggested for equating the capital of 1,300 lightweight £s with assets worth 1,000 solid £s. LIFO might tackle the problem by saying that closing stock is still worth £1,300. (Advocates of LIFO usually assume that the base-year is a time of low prices, so that stock is unlikely to be so grossly over-stated; but the possibility cannot be dismissed.) However, if the whole physical stock is not replaced, even LIFO cannot use as high a figure as £1,300, and so LIFO is a partial cure only.

This limitation, and the possibility that a large stock figure may deceive creditors, make me look askance at LIFO's charms.

The stock reserve seems a better device. When goods are sold at a time of low prices, the reserve is recognized to have become superfluous, and is used to buttress profit. In our illustration, capital is in effect written down to £1,000 by the transfer of £300 from reserve to revenue account. In this account, the £300 is an indication that the 'cost of goods sold' is – by the test of current prices – not £1,300 but £1,000.

To summarize: accountants do not, like our imaginary salary-earner with a house, distort revenue by bringing in temporary fluctuations in the value of permanently-held assets. But, if an asset is turned over in course of trade, the comparison of original capital with new assets must inevitably make the accounts take cognizance of appreciation or depreciation of money values, unless some such device as the stock reserve is used as a corrective.

'Lower of Cost or Market'

My remarks have so far assumed that stock is valued at cost. In fact, however, at times of falling prices it is likely to be valued, in accordance with the 'lower of cost or market' rule, at a lower 'market' rate. If, for instance, the firm in our last example duly replaces its stocks during the year for £1,000, the new stock's value may sink to £800 by the close of the year; then the accountant writes off £200 more from assets and profit.

Substitution of market for cost makes profit fall further and more quickly at the start of a slump. Over all the years of a complete cycle, total profit is not changed by the 'lower of cost or market' rule; reductions in some years are offset by increases in others – for example, in the year during which prices start to rise (and closing valuation, based again on cost, is compared with an opening figure still at modest market rates) profit is likely to spurt up more sharply than if cost had been used throughout. The rule thus does not by any means give uniformly conservative results. Instead it makes profit – like an over-bred terrier – react excessively to each change in the trend of prices.

Reserve Policy

A wise reserve policy would at least cream off the extra profits that the 'cost or market' rule creates at the stage when the price-curve is recovering. Then, on the arrival of the next depression, transfers would be made in the opposite direction. Thus we should make the best of both worlds. Profits would be less erratic; stock would always be shown in the balance sheet at a cautious value, and so would not deceive creditors or lull managers into over-optimism.

Such are the arguments in favour of a more vigorous stock reserve policy. They apply whether or not the annual adjustments are treated as costs or appropriations. However, if the adjustments are not during booms allowed as costs for tax purposes, many

firms will not be left with the means to make effective reserves.

It may well be that some of us are disposed to give our blessing to profit stability, but will wish to look more fully into the costs and risks of any system that modifies the accountant's traditional caution in valuing stock during slumps. Let us, therefore, again examine his case for writing-down stock. Two arguments are usually given for such conservatism.

First, stock ought to be valued on a stringent basis because otherwise creditors will be misled and mistakes of management (e.g. the buying of white elephants) will be glossed over. I think we should all subscribe to this view. But one of the great advantages of the stock reserve system advocated above is precisely that it does not add one penny to the prudent stock figure found by normal methods.

Second, when sale proceeds are likely to fall, owners had better start the belt-tightening process forthwith, and thus conserve cash or other assets. Our acceptance of this proposition should, I feel, be more guarded. We must distinguish between several possible situations. The slump may catch a firm with too little ready money to weather the crises ahead; in such cases, prompt frugality may be essential. Again, the decline may not be a temporary dip in a general trade cycle – instead, the given firm or industry may face difficulties peculiar to itself, and of unknown (perhaps permanent) duration; here there is no substitute for honest judgment by the directors on the best use of the firm's resources, and the outsider can merely say that there is nothing inherently wrong about paying out past savings if the owners (in full knowledge of the facts) deem such a course to be in their best interests. Lastly, we have the case of the firm with ample liquid funds, whose earnings are depressed by a general and temporary cycle. Here a savage cut in dividends seems absurd. To bring back stock reserves in such circumstances (we may reflect) can be no worse than making drafts on a dividend equalization reserve; it is surely more justifiable than the furtive retransfer of secret reserves by the banks (and most of our authorities assure us that such manipulations breed strength and confidence). If the adjustment were universal among big companies, it would give rise to few misgivings and would help enormously to maintain incomes and combat the slump.

Transfers from Stock Reserve

This brings me to my last point. It would be desirable if there was, in the first place, a certain degree of uniformity in what was done – for example, if transfers from stock reserve did not depend too much on the bad luck of the particular firm or on the vagaries of its particular asset prices. I feel there are extremely strong arguments in favour of the device that has been suggested in connection with possible tax reforms, of making the transfers to stock reserve and back again dependent on some single official index rather than upon the feelings of the particular firm.

Such is, I think, the case for the use of stock reserves. I do not suggest that in the first place a more vigorous policy would be free from mistakes, but it seems to me that the benefits from the standpoint of the individual, of the firm, and of our society, are so great that it would be well worth while to take this step. (Applause.)

DISCUSSION

Mr J. H. MANN, M.B.E., F.C.A.: Mr Chairman, ladies and gentlemen, we have heard most stimulating addresses by the two opening speakers, and, in fact, it is rather difficult to know whether to give their remarks local treatment or general treatment, but I think all one can do is to pick out one or two points and mention them. The final point which Mr Solomons raised in connection with the disclosure of assets is perhaps worthy of mention. One difficulty I envisage is that there are several classes of stock – raw materials, stores, work in progress and finished goods – and the treatment of each may vary justifiably. Overheads, of course, are a separate subject on which one could spend an evening.

I should like to refer to Professor Baxter's final point about the possibility of working to a single index figure. I hope he will have time to develop that. As regards the auditing point of view, I think we would admit that in the past we possibly have been rather complacent, but thanks to the Institute's and other publications I hope we are getting less so, because I do not feel there is any justification for being complacent.

Mr W. E. PARKER, F.C.A.: Mr Chairman, I have many problems but few answers to them, and I have come here hoping to learn the answers. The puzzle which I always have is about the distinction which I am sure always exists between real merchanting profit by a man who buys stock well in the expectation that it is going to rise and does make a very satisfactory profit on it, and the other kind caused by inflation which we have been only too familiar with these last few years and perhaps, conversely, deflation which we may be going to experience very shortly. The idea at one time was that one could solve this particular problem, this distinction, by applying an index to the figures in one's accounts which represent goods rather than money – that is to say, stock and fixed assets. One might be able to apply some sort of general price index, some sort of index of the value of money, and use that as an exchange rate and so on, and so convert the historical cost of stocks into their value in terms of existing currency, but the trouble, I understand, is that you cannot find such an index; you cannot find a general index at all. An economy such as ours depends entirely upon what the country's income is being spent on. At one time we buy wool, another time cotton, and so on. We cannot find a general index at all. Without that I do not see how we can indulge in any stock reserve as suggested and how we are to keep a distinction between a commercial profit and the adventitious profit which arises from a sort of exchange difference because the monetary value of £1 has changed. If anybody can help with that I should be very grateful.

Professor BAXTER: Perhaps I might talk about the points which the last two speakers have raised, both of which are extremely important and interesting. As to what sort of index should be used, I suppose there

are two main groups to choose from. One would be something like the wholesale price index, which would concentrate principally on the kinds of assets that business firms in fact hold. It might, indeed, be subdivided by particular industries and so on. The other possibility is that you are not so much interested in the given firm maintaining its stock of physical assets, which is perhaps only the first step, but rather you are interested as shareholders in the maintenance of your standard of living. In that case, what you would regard as an adequate test of whether profits were being maintained is whether they follow an index that reflects the cost of living.

Now, I am not a statistician, but I have a painful appreciation of the fact that you cannot say anything about an index without some clever person pointing out that it is imperfect. Even if we were to revise these two possible types of index considerably, they would not be above criticism. On the other hand, the degree to which they might err would be extremely small compared with the amount by which it is admitted prices have risen, since—shall we say?—1925, when the firm bought its assets. The error would be negligible in comparison with the error of doing nothing at all. For my own part, it seems to me that we must accept the whole thing as rough-and-ready; it need not be more rough-and-ready than the accepted methods of writing off depreciation, which involve the wildest guessing.

I think that it would probably be better to take the second type of index, that is to say, the one that mirrors the cost of living. It might be given a bourgeois flavour, and so reflect the sort of thing which the average shareholder spends his money on.

That leads me to the second point, which is the case of a merchant who makes an honest profit by buying in a good market and selling in a dear one. Here I think that even so far as minority opinion goes, I am in a very small minority. The general feeling is that if you are going to give concessions—and, of course, the sort of thing at the back of your mind is to get some sort of tax concessions ultimately—you ought not to distinguish between any kind of rise in the value of a man's stock, i.e. whether it is due to his peculiarly good qualities as a merchant or to the general rise that has taken place in everybody's stocks. That seems to me to be wholly wrong. The easiest way to look at it is to take the case of A., who buys cheap and sells dear. I think all would agree he is making a profit, a trading profit, and his fellow taxpayers will expect him to pay tax on that. Suppose the general index has risen from 100 to 120, but the price of A.'s particular goods has gone up from 100 to 150. If you adopt my system (taking as your criterion the general cost of living) you will allow A.—whether or not for tax purposes is beside the point—to charge £120 as a cost. 'The £30 extra', you would say, 'is a perfectly good trading profit, and if you like to distribute it as dividend you can do so.' If the tax authorities ever give any concession in this matter, they should not give it so far as that £30 goes. That, I think, is extra justification for using an index and for using an index that does not depend on the peculiar replacement costs of any special firm, but is rather a gauge of the general rise that has taken place in prices.

Mr E. H. DAVISON, F.C.A.: Mr Chairman, I have no time to disagree with more than two or three people, but I should like, if I may, to pick on one point in

Mr Solomons' speech, and that is with regard to his reference to the definitions in Recommendation X of market and replacement cost. I believe Recommendation X to be right and I should like him to explain why he prefers to define market price in terms of purchase rather than sale.

In regard to the question of valuation of stock, I do feel we tend to overlook that the stock valuation problem for balance sheet purposes is a somewhat distinct matter from the valuation of materials or goods consumed for the purpose of arriving at the profit. We have long ago abandoned, if we ever did use, the principle that we arrived at expenses by starting with the opening bank balance, adding all the receipts for the period, deducting the bank balance at the end and calling the result the expenses. The method of taking the opening stock, adding purchases, knocking off the closing stock valued on a more or less arbitrary basis, to arrive at the cost of sales leads, I think, to a good deal of loose thinking on the question of valuation. What we are attempting to value is surely not the stock but what we have consumed and most businesses are able to do that without reference to the balance which may or may not exist on the stock account at the close of the period. Clearly the balance of the stock account at the beginning may have to be brought in because that may be consumed during the period, but stock at the end cannot have been consumed during the period and the valuation thereof, therefore, cannot in any way affect the profit for the period, because it was not consumed; it was not used in earning the income.

The Index-number Problem

There are other possibilities in regard to valuation which may be more appropriate and which I believe are more appropriate. In deciding their appropriateness in accounts I should like, if I may, to refer to the index-number problem which Mr Parker raised, as so many people seem to concentrate on this point of buying in a cheap market and selling in a dear one. Most of us deal with continuing businesses which are more or less doing the same thing day after day and year after year and would say that in a continuing business the method by which you arrive at your profit may well be quite different from the way in which you would in a joint venture or a merchanting operation. Broadly speaking, it is the single merchanting operation upon which most of our present accounting theory is based. It is to my mind inappropriate. The continuing business has no difficulty about materials because it is buying materials from day to day and knows its own purchasing power. After all, for all practical purposes a general index is perfectly valueless because it will be found by comparison with other businesses that there is very little divergence between the index independently arrived at and used by one business or another.

Mr SOLOMONS: I feel I am only called upon to take up Mr Davison's request that I should elucidate further the important point about market price. May I put it very simply? It surely turns on what we mean by the profit of a particular year. Suppose in year 1 we buy goods for £100 with the expectation that we shall make a 20 per cent margin on sales. We expect, therefore, to sell them for £120 some time after the end of year 1. When we get to the end of year 1, however, we find that prices have fallen generally, so that we could now buy the goods for £90. We should

still expect to sell at the same margin of about £20. Now suppose that we actually sell at £110 in year 2. Our accounts will show that we made neither a profit nor a loss in year 1 and that in year 2 we made a profit of only £10 and not the £20 which was expected to be made.

It seems to me that that is wrong and that in fact nothing happened in year 2 which entitles us to say that year 2 as a separate period of time has made more or less than the normal profit. The deterioration of our profit from the expected £20 to the realized £10 has in fact taken place between the time we bought in year 1 and the end of year 1. This result is achieved by the American method of writing down stocks at the end of the year 1 if they can be bought at that date for less than we actually paid for them.

'Realized and Unrealized Losses'

Mr H. NORRIS, A.C.A.: May I make one point on what Mr Solomons said on the question of cost or market value which he criticized severely. I am not sure whether he gave us a substitute for it. Roughly speaking, he said that he did not see why we should ignore increases in value and yet be so concerned with decreases in value. He used the expressions 'unrealized gains' and 'unrealized losses'. It seems to me that 'realized losses' is a meaningless expression as you cannot realize a loss because realization means turning something into cash. It is not an expression which means anything. We ought not to use the expression 'realized or unrealized losses'. A profit is essentially part of your revenue—a loss is essentially a cost and there would not be a loss unless you had paid something out. Having acquired some material and the price having gone down so that you do not expect to realize the full cost, you have already incurred your loss; you have paid out that money which is lost; you have paid, say, £100, in respect of which you realize only £90. This is a loss of £10 actual cash already paid out. That is why you should not speak of unrealized gain being merely the opposite of unrealized loss. It is not so. Therefore, I think that the present rule is not in the least illogical. If Mr Solomons has an alternative, would he enlighten me?

Mr SOLOMONS: I did very sketchily outline an alternative to the 'cost or market' rule but I would prefer not to go back to it because I purposely refrained from giving prominence to it. I did say that it is much easier to pick holes in an accepted rule than to replace it with something better. I am completely unconvinced by Mr Norris's argument that we ought not to talk about unrealized losses as though they were simply the opposite of unrealized gains. As accountants we do record a loss where goods have been bought for £100 and at the balance sheet date are valued at £90. Mr Norris says that that is a real loss because we have spent £100 but I do not see the logic of that. We bought certain goods and at the balance sheet date we still have them. Nothing has really changed; we are exactly where we were before because, although the goods have lost value, we still have them. I therefore see no reason to accept Mr Norris's view that one ought not to talk about unrealized losses in the same way as we talk about unrealized gains.

Mr B. A. PENNOCK, A.C.A.: Like the previous speaker from the body of the hall, I am somewhat surprised by Mr Solomons' comments about setting unrealized profits against unrealized losses. I do not know which term

is right. Coming to the point, it seems to me that all accounting is conventional. There are certain conventions which are adopted and the current convention is that profits are calculated on the completion of a transaction and for that reason it is only when the transaction is completed that you have got your realized profit, and if it is a profit you should do this, but, being prudent people, we provide for losses which may be made, and it is right that we should provide for losses by having them offset by realized profits.

I would like to mention another thing. It has been suggested that we should use LIFO and I should like your guidance on that. I am not being critical but I gained a new problem when listening to what Mr Solomons said. The problem is this: it surprises me very much, after hearing what I have just spoken about, that is, the bringing in of unrealized profits, that Mr Solomons did not see any harm in that, but, talking about overheads, and work in progress, he was horrified, it seems to me, because it would be taking into account unrealized profits. The point on which I want some guidance is whether work in progress should be valued at standard costs or at actual costs, the point being very often that no doubt the actual costs differ from standard costs, perhaps because of wastage and so forth, which do not really add anything to the value of the stock.

Mr SOLOMONS: I would like to take up the first of those two points. As regards the apparent contradiction between my views on the inclusion of overheads in stock values and my readiness to accept unrealized gains as of equal standing with unrealized losses, I do not think there is any real contradiction there. The point I was trying to make is that if you are adopting one accounting convention that profits are only made when goods are sold, then profits should not be shifted from one period to another by the mere act of producing goods without selling them. But this is the result of another convention which permits us to include overheads in stock values. If we are to be consistent in sticking to the first rule, it follows that overheads should not be included in stock values. However, I am not myself particularly wedded to the view that profits are only made when goods are sold or, at least, that profits should never be recognized until goods are sold. If I were allowed to adopt a different convention on that point, I should be prepared to reconsider my position on the other.

Accuracy in Measurement

There is a further point raised by the last speaker which I think ought to be taken up and that is the question of prudence. It seems to me that we, as accountants, tend to confuse our job as people who measure things accurately, with our job as people who advise directors what to do with what was measured. We are surely in the first place concerned with an attempt to measure income, a difficult enough job. Why not let us measure it and then, when we come to think about financial policy, reserves, dividends and so on, consider what we shall do with it? I cannot see that the necessity to be prudent should in any way affect what we do as measuring agents, so to speak. If I may suggest perhaps a rather ridiculous analogy, if one were going to the North Pole the prudent thing, I take it, would be, knowing the temperature was going to be very low, to take a lot of

warm clothing; it would not surely be prudent to take a thermometer, for the purpose of measuring the temperature, which consistently showed too low a reading. That would be silly. I mention that point in attempting to emphasize my view that accurate measurement should come first and that prudence is something which should come afterwards and quite separately.

Abnormal Quantity

Mr J. F. SHEARER, O.B.E., F.C.A.: We have heard much about values and prices. I would just like to ask this: stocks are normally usable or unusable. I do not think there is any question but that you would expect a different basis to be used for those stocks which are normal in quantity and those which are abnormal in quantity.

Professor BAXTER: I must confess, sir, that I cannot think of any convincing reason why one should have a different basis. It may be that the questioner has got some peculiar situation in mind which would clarify the issue.

Mr SHEARER: Traders in wool, textiles, chemicals, who in times of short supply have bought two or three years' requirements.

Professor BAXTER: I should have thought that the ordinary rules would have taken care of this. One would have to look at these swollen stocks and say either 'We can sell it all at such and such a price' and mark down the whole stock, or perhaps 'We will sell one lot in one market and take the rest overseas.' In either case you would mark down sufficiently. Perhaps that is the point?

Mr SHEARER: I would disagree on that; I would say it is dangerous to value normal stocks and an abnormal quantity of stock on a different basis, which would certainly be lower.

Professor BAXTER: Assuming you have only one market, would not the ordinary criterion—what you are going to sell all the stock for—apply? In other words, while from the standpoint of the firm itself there may be a distinction between normal and abnormal stocks, there is none from the standpoint of customers. Both lots have normally to be valued on the same basis. I must confess that I do not see how any difficulty would arise.

The CHAIRMAN: This question depends on the fact that part of the stock is part of what is flowing through the factory and part of it is a speculation in the market.

Mr SHEARER: It would be an insurance against cessation of future supplies.

'Cost or Replacement Value'

Mr C. O. H. MERRIMAN, A.C.A.: My point is one of description in the balance sheet. It seems to me that the term which we usually use, 'cost or market value whichever is the lower', is gloriously vague. We ought either to describe the thing as 'cost or replacement value' or 'cost or net selling value, whichever is the lower', because, especially in the markets as they are today, a description like 'cost or market value whichever is the lower', as distinct from 'cost or replacement value', can literally conceal thousands of pounds of reserves. I think there is a case for being a little more definite in balance sheet expressions.

Also I would like to ask Professor Baxter to elaborate one small point. He has been talking about indices and the use of coefficients. In view of the fact that I think it can be argued that the purchasing power of money has been consistently dropping during past

centuries, how often would he suggest that these indices should be revised? I do appreciate the fact that when you revise an index you are, so to speak, consolidating or making permanent the changes of money over the preceding figure since the original index was prepared. I would like to know his views on that point.

Professor BAXTER: That is one of those horrid technicalities that I must confess I am extremely ignorant of. From what one reads about the difficulties of revising the current cost of living index, one gets some grasp of the appalling problems at stake. As I said before, I have no doubt whatever that any statistical answer must be imperfect by absolute standards. The point is that doing nothing at all is a great deal more imperfect. As to the time at which one revises the indices, I suggest this is done when statisticians change their basis, and not when accountants give a different figure. The change, I think, has to be left to your independent body (the Board of Trade or whoever it is) in the light of the best statistical information. I am, in general, against leaving things to the experts, but it seems to me that, when your appendix has to be taken out or your index has to be revised, this is the best possible course.

Recommendation XV

THE CHAIRMAN: If there are no more members wishing to contribute to the discussion I will attempt to say the last word. I think it is clear that this subject is a very wide one and I do not think it would be fair in using the last word to attempt to cover the many specific topics that have been raised. I would, however, like to read a paragraph from the middle of Recommendation XV. Possibly from its position, this is a paragraph which is perhaps less read than the beginning or the end. This was issued roughly eleven months ago:

'Monetary profits do not therefore necessarily reflect an increase or decrease in wealth in terms of purchasing power, and in times of material change in prices this limitation upon the significance of monetary profits may be very important. It would be a major development in the building up of a coherent and logical structure of accounting principles if the limitations of accounts based on historical cost could be eliminated or reduced by the adoption of new principles, capable of practical application to all kinds of businesses in a manner which would be independent of personal opinion to a degree comparable with the existing principles based on historical cost.'

Recommendation XV then goes on to refer to different methods which have been suggested for new accounting principles and finally the Council recommends members who are directors or officers of a company or are asked by clients for advice that they should consider experimenting with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements.

I hope that this general discussion will help towards that kind of experimenting in fresh methods which could be grafted on to our accounting system in future years.

I should now like particularly to thank Professor Baxter and Mr Solomons very much for the trouble they have taken both in preparing their introductions and in answering so many questions from the members here. I am sure we are very grateful to them for what they have done. (Applause.)

WEEKLY NOTES

The Society's Examinations

In the examinations of The Society of Incorporated Accountants and Auditors held last May, the results of which have now been announced, seven candidates were awarded honours in the Final, the First Certificate of Merit and First Prize being won by Mr John Derrik Hender, of Coventry. The Second Certificate of Merit and Second Prize were awarded to Mr James Alan Marriott, of London, and the Third Certificate of Merit and Third Prize to Mr Desmond Frederick Davis, also of London.

There were 828 candidates in the Intermediate examination, of whom 335 (41 per cent) were successful, and six candidates were awarded honours. The First Place Certificate and First Prize were won by Mr Denis Ernest Hamment, of London; the Second Place Certificate and Second Prize by Mr James John Reed, of London, and the Third Place Certificate and Third Prize by Mr Geoffrey Robert Norden, also of London.

In the Preliminary examination, 148 candidates sat, of whom 37 (25 per cent) were successful.

A list of the successful candidates in the Final (Parts I and II) examination, together with a complete summary of the results, appears elsewhere in this issue.

The Institute of Municipal Treasurers and Accountants' Examinations

A total of 898 candidates sat for the examinations of the Institute of Municipal Treasurers and Accountants held last May, and of these, 28 per cent were successful. In Part A of the Final examination, 118 candidates (29 per cent) passed, while in Part B 32 (32 per cent) were successful. There were 395 candidates for the Intermediate examination, of whom 101 (26 per cent) passed.

Prizes will be awarded on the combined results of the May examinations and those to be held next November. A list of the successful candidates in the two parts of the Final, together with a summary of the complete results, appears elsewhere in this issue.

Wear and Tear Percentages

The Board of Inland Revenue have issued a new list of agreed percentage rates of wear and tear allowances for machinery and plant for tax purposes¹.

As from 1952-53 inclusive the basic rate for general saw milling machinery and plant is raised from 7½ per cent to 10 per cent. A new item in the list is general manufacturing plant under the heading 'Joinery manufacture'. Here also the rate is 10 per cent as from 1952-53. Steam trawlers have been taken off the heading 'Shipping' and entered under a new

heading, 'Trawler owners'. The heading 'Building brick manufacture and heavy clay industry' has been taken out and replaced by a new heading 'Heavy clay industry (including building brick manufacture)'. At the same time, the figures for 'straight line' wear and tear under this heading have been deleted. The separate heading for 'Furniture' has been deleted and replaced by a heading 'Hotels, boarding houses and restaurants' but the figure remains at 10 per cent (excluding soft furnishings), as from 1951-52. All the above figures require to be multiplied by five-fourths.

Trustees' Remuneration 'Earned Income'

The House of Lords has now held that remuneration paid to a trustee under the terms of a will is earned income for tax purposes. In *Dale and Others v. C.I.R.* (*The Times*, July 21st) Sir Henry Dale appealed against an assessment to special contribution made upon him. The Inland Revenue had included as his investment income the £1,000 a year tax-free which he received as a trustee of the Wellcome Trust under the will of Sir Henry Wellcome. The Special Commissioners held that the £1,000 a year was not 'earned income' and, therefore, must be included as investment income liable to the contribution. Mr Justice Harman reversed this decision but it was restored by the Court of Appeal.² It was common ground that Sir Henry performed onerous and regular duties as a trustee in return for the £1,000 and the man in the street might well be surprised at the Court of Appeal's decision, which was based on the argument that as a trustee is not in general entitled to remuneration, his office is not an office of profit within Section 14 (3) (a) of the Income Tax Act, 1918. In the House of Lords, Lord Normand said that the words

'income arising in respect of any remuneration from any office or employment of profit held by the individual'

in Section 14 (3) (a) of the Income Tax Act, 1918, seemed clearly and unambiguously to apply to the disputed income in the present case. Their other Lordships concurred and the appeal was accordingly allowed.

Army Officer's Expenses

Rule 9 of Schedule E, which restricts expense deductions for income-tax to those expenses incurred wholly, exclusively and necessarily in the performance of the duties of the employment, continues to give trouble - and disappointment - to the taxpayer. The latest subject for judicial consideration were the expenses incurred by an army officer on what might be called the social side of his duties.

In *Lomax v. Newton* a major in the Territorial

¹ 'Income Tax Wear and Tear Allowances,' H.M.S.O. 9d.

² See *The Accountant*, July 5th, 1952.

Army claimed a deduction in respect of the following expenses:

- (1) Annual mess subscription 'to provide a mess' - £8.
- (2) Share of entertaining mess guests - £9 16s.
- (3) Payments to batman at camps - £3 10s.
- (4) Hire of camp furniture - £1 5s.
- (5) Hotel expenses attending conferences - £6.
- (6) Cost of tickets at sergeants' and other ranks' dances and sergeants' annual dinner club, etc - £2 15s.

The General Commissioners had found that all these expenses were incurred wholly, exclusively and necessarily in the performance of Major Newton's duties. The Crown appealed.

In a reserved judgment delivered last Tuesday, Mr Justice Vaisey said that the words of Rule 9 were deceptive; they were so restricted as to come to nearly nothing at all. As regards items 1 to 4 inclusive he allowed the Crown's appeal, holding that there was no evidence to support the Commissioners' finding. It was irrelevant to say that an officer who did not incur the expenses would be asked to resign. No doubt he would also be asked to resign if he did not wear decent civilian clothes when not in uniform but that did not allow him to deduct his tailor's bills. His Lordship refused, although with some hesitation, to disturb the Commissioners' finding on item 5, but he gave a warning that his decision should be used as a precedent only with great caution. Hotel bills might well cover personal indulgence as well as necessary maintenance. As to item 6, it could not be said that an officer was on duty when he went to dances held by other ranks, no matter how desirable that attendance might be. He accordingly allowed the Crown's appeal in that case, on the grounds that there was no evidence to support the Commissioners' finding. He ended his judgment by calling attention to the extreme and possibly unintentional narrowness of Rule 9.

Judgment was given immediately afterwards in *Griffiths v. Mockler*, where a regular major in the Royal Army Pay Corps had successfully claimed, before the Commissioners, a deduction of £11 7s in respect of his mess subscription. Here again the Crown was successful, His Lordship holding that there was no evidence on which the Commissioners could find as they did.

Colliery Houses' Valuation Tribunal

An independent tribunal composed of Sir Malcolm Trustram Eve, G.B.E., M.C., T.D., Q.C., a former chairman of the Central Land Board, Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., J.P., a past president of The Institute of Chartered Accountants in England and Wales, and Sir Edward Gillett, P.P.R.I.C.S., has now issued its findings on the problem of valuation of houses provided for colliery workers.

For some time the National Coal Board and the Mining Association of Great Britain have co-operated

in efforts to speed up the assessment of compensation for these assets, vested in the National Coal Board on nationalization, and which are not covered by the global sum awarded by the Green Tribunal, of which Sir Harold Howitt was a member. In order to reduce the field of dispute, the National Coal Board and the Mining Association decided to set up a tribunal, whose findings they agreed in advance to accept, which would declare general principles applicable to the valuation of house property used in association with collieries throughout England and Wales.

The Mining Association contended before the Tribunal for current replacement cost, modified to suit the age and obsolescence of the houses, while the National Coal Board maintained that the houses should be valued by capitalizing, on the basis of an appropriate earnings yield, the net annual revenue which a purchaser could reasonably have expected to derive from the houses by way of actual rents.

The Tribunal consider that the best method is first to estimate the net rental which a colliery concern would be likely to pay on a lease for a term of years 'in order to use the house properties in association with the colliery' and then to apply to that net rental value an appropriate multiplier or years' purchase. Thus no regard is to be paid in valuations either to the actual outgoings or to any rental actually paid by the occupiers of the houses.

As to the appropriate multiplier or years' purchase, the Tribunal consider that the landlord would in nearly all cases be entitled to receive a yield of about 6 per cent which they measure as sixteen years' purchase. Where, however, the properties were at vesting date getting near the 'spot value' period of their life, they think that this yield might properly be increased towards, or up to, 7 per cent measured as fourteen years' purchase.

Bank Deposits: A Year's Comparison

Last week the deposit figures for the 'Big Seven' among the banks were published comparing the deposits and assets for June with those for a year ago. Deposits were $3\frac{1}{2}$ per cent higher on the year. Among the assets the biggest change was among investments which, of course, includes Government borrowing. Here an increase of $12\frac{1}{2}$ per cent was recorded. Advances were about 6 per cent lower.

Government borrowing has clearly been the main cause of the increase in credit and these figures reinforce the inference which has been taken from the month to month statistics from the banks that the Government continues to exert pressure against disinflation so far as its own fiscal affairs are concerned. The private sector of the economy has undergone a dose of restriction in the last eighteen months and this comes out in the figures referred to above but it may well be that disinflationary pressure in this quarter has been relaxed too of recent months, for the drop in advances from June to June is rather less than has been recorded in earlier months this year on an annual comparison.

FINANCE AND COMMERCE

Successful new issues have provided the main feature of business during the August holiday three-week account in stock markets. General business has been on a small scale but the tone of markets continues firm under the lead of British Government stocks which have been assisted by the satisfactory War Bonds conversion operation.

Property Revaluation

Explaining to shareholders the reasons for or against asset revaluation is never a straightforward matter at the best of times. But when the position is complicated by the main assets being divided between commercial properties and buildings 'in which there is to be found almost every combination of rent-controlled and non-controlled flats' the task becomes more difficult still.

In the report of The London County Freehold

and Leasehold Properties Limited the problem is solved quite adequately in question and answer form. The main point at issue is the company's need to revalue its assets on the basis of reliable income. At present, because of control of rents in other directions, revaluation is only a workable proposition in the case of the commercial properties.

The average yield on book value of the company's commercial properties, the directors point out, is much higher than the $6\frac{1}{2}$ per cent indicated by the revenue balance of £810,415 and the £11,993,716 gross value of properties. Existing sinking funds, the board state, might not provide a sum large enough either to rebuild a freehold or replace a leasehold property with another bringing in the same income. 'As a matter of prudent policy' book values may have to be written up so that sinking funds can be revised.

THE LONDON COUNTY FREEHOLD Balance Sheet at March 31st, 1953, and Consolidated

	1953		1952	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
	£	£	£	£
Share Capital and Reserves				
Authorized: £4,000,000.	821,000	821,000	821,000	821,000
Issued: 5½ per cent Cumulative Preference Stock	2,479,000	2,479,000	2,479,000	2,479,000
Ordinary Stock	—	—	—	—
	3,300,000	3,300,000	3,300,000	3,300,000
Capital Reserves				
Balance of Share Premium Account	569,363	569,363	569,363	569,363
Less Discount on Debentures and expenses of issue after deducting profit on Stock redeemed	8,341	8,341	—	—
	561,022	561,022	569,363	569,363
Other Reserves	110,930	110,930	110,930	110,930
	671,952	671,952	680,293	680,293
Revenue Reserves				
General Reserve	708,808	708,808	658,808	658,808
Add Transfer from Revenue Appropriation	50,000	50,000	50,000	50,000
	758,808	758,808	708,808	708,808
Balance of Revenue carried forward	294,734	294,769	289,451	289,486
	1,053,542	1,053,577	998,259	998,294
	5,025,494	5,025,529	4,978,552	4,978,587
Debenture Stock and Mortgages				
3 per cent First Mortgage Debenture Stock secured by Trust Deeds ..	4,725,365	4,725,365	4,703,373	4,703,373
Mortgages secured on certain specific properties	217,841	217,841	226,414	226,414
	4,943,206	4,943,206	4,929,787	4,929,787
Bank Loan secured on certain specific properties	527,500	527,500	527,500	527,500
	5,470,706	5,470,706	5,457,287	5,457,287
Provisions				
Properties Internal Modernization	3,947	3,947	11,683	11,683
Repairs, Redecorations and Renewals:				
Balance from last year	—	—	—	—
Add Transfer from Revenue Appropriation	160,014	—	—	—
	30,000	—	—	—
	190,014	—	—	—
Less Expenditure in excess of annual provision (1952 add £19,305)	18,503	—	—	—
	171,511	171,511	160,014	160,014
Staff Welfare	28,911	28,911	29,608	29,608
	204,369	204,369	201,305	201,305
Current Liabilities				
Accrued interest on Debenture Stock and Mortgages, less tax ..	20,498	20,498	19,566	19,566
Creditors and accrued expenses	116,639	220,286	39,154	158,209
Profits Tax to date less income-tax recoverable 1952/53 and earlier years	90,092	90,202	124,822	124,954
Amount owing to Subsidiary Company	55,786	—	64,971	—
Installments of War Damage Contribution accrued to date	98,528	98,528	102,459	102,459
Proposed final dividend 9d per 10s unit of Ordinary Stock, less tax	102,259	102,259	86,765	86,765
	483,802	531,773	437,737	491,953
Rents receivable in advance	391,341	391,341	370,901	370,901
	£11,575,712	£11,623,718	£11,445,782	£11,500,033

Today's Value

Concerning other properties, in which rent control applies to varying degrees, it is impossible to determine the actual, as distinct from the potential, value of controlled properties until the Rent Restrictions Acts are revised. When the position is finally stabilized 'the board may feel that there should be a revaluation of all the company's properties'.

To the question of 'What is replacement value? Yesterday's or today's?' the board leave no doubt as to their opinion that it is today's values that matter and to defend themselves in advance they add that 'obviously there will be those who say that tomorrow's value may change again. We can only deal with established and not hypothetical factors'.

From the reprint of the company's accounts it will be seen that it is the company's policy to show the amount of profits tax attributable to dividends in the appropriation account with the amount of the dividends. This, in the board's opinion, facilitates

the break-down of revenue as shown in the separate statistical information accompanying the accounts and gives a truer picture of the revenue disposal year by year.

No Consolidation

Consolidation for consolidation's sake does not necessarily result in group accounts giving a clear picture. The result might even be just the reverse. The Board of Ocean Coal & Wilsons Ltd for example, are well advised in resisting the demand from some stockholders in the company for consolidated accounts for the whole group.

The group is divided clearly into two parts. There is first the 'Ocean Coal' side of the business where the greater part of the assets vested in the National Coal Board in 1946 and where future operations will be determined by the amount of compensation finally received. Secondly there is the 'Wilson's' side of the business which consists of a group of merchant-

AND LEASEHOLD PROPERTIES LIMITED

Balance Sheet of the Company and Subsidiary Company

	1953		1952	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
	£	£	£	£
Fixed Assets				
PROPERTIES as valued in 1925 and taken over from Subsidiary Companies at book values on amalgamation with the Company in March 1934, with additions and improvements at cost:				
Freehold	2,928,905	2,928,905	2,056,484	2,056,484
Less Depreciation	243,022	243,022	115,180	115,180
	2,685,883	2,685,883	1,941,304	1,941,304
Leasehold	9,064,811	9,064,811	9,615,107	9,615,107
Less Amortisation	819,094	819,094	863,782	863,782
	8,245,717	8,245,717	8,751,325	8,751,325
	10,931,600	10,931,600	10,692,629	10,692,629
PLANT, Equipment and Office Furniture at cost	45,954	70,789	40,992	63,373
Less Depreciation	22,111	36,247	18,239	31,873
	23,843	34,542	22,753	31,500
SHARES in Subsidiary Company at Cost	15,000	—	15,000	—
LOANS on Mortgage	9,865	9,865	10,150	10,150
	10,980,308	10,976,007	10,740,532	10,734,279
Current Assets				
Cash at Bank and in hand	174,403	180,015	184,942	189,777
Rents due and accrued less £25,031 (1952, £25,290) provided for doubtful debts	269,745	269,745	260,914	260,914
Debtors, including estimated amount recoverable in respect of war damage expenditure and compensation	136,585	142,421	242,573	249,283
Stores and work in progress at cost or under	14,671	55,530	16,821	65,780
	595,404	647,711	705,250	765,754
	£11,575,712	£11,623,718	£11,445,782	£11,500,033

T. J. CULLEN }
BUCKMASTER } Directors.

THE LONDON COUNTY FREEHOLD
Revenue Account and Consolidated Revenue

	1953		1952	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
	£	£	£	£
Directors' Fees*	6,600	6,850	6,600	6,850
Auditors' Fees	1,225	1,785	1,225	1,785
Trustees' Fees	788	788	788	788
Depreciation and Amortisation of Fixed Assets:				
Leasehold Amortisation	49,449	49,449	50,145	50,145
Freehold Depreciation	4,589	4,589	4,342	4,342
	54,038	54,038	54,487	54,487
Interest on accrued Leasehold Amortisation and Freehold Depreciation ..	29,116	29,116	26,928	26,928
Depreciation of Plant, Equipment and Office Furniture	4,205	6,170	2,876	4,499
	87,359	89,324	84,291	85,914
Interest on Debenture Stock, Mortgages and Loans	162,528	162,528	158,028	158,028
Net Revenue for year carried down before charging Profits Tax attributable to dividends	284,861	284,861	260,263	260,263
* The aggregate amount of all Directors' emoluments of the Parent Company (including the Managing Director's commission and pension premium) is £23,692 (1952, £23,676)				
	£543,361	£546,136	£511,195	£513,628
Appropriations for the year:				
Transfer to General Reserve	50,000	50,000	50,000	50,000
Transfer to Repairs, Redecorations and Renewals Provision	30,000	30,000	—	—
Transfer to Staff Welfare Provision	—	—	7,500	7,500
Dividend on 5½ per cent Cumulative Preference Stock (less tax)	23,706	23,706	23,706	23,706
Interim Dividend 4½d (1952, 4d) per 10s unit of Ordinary Stock (less tax) ..	48,805	48,805	43,383	43,383
Proposed Final Dividend 9d (1952, 8d) per 10s unit of Ordinary Stock (less tax) ..	102,259	102,259	86,765	86,765
	174,770	174,770	153,854	153,854
Profits Tax attributable to Dividends (1952, less Income-tax)	64,808	64,808	60,809	60,809
Balance of Revenue carried forward	294,734	294,769	289,451	289,486
	£614,312	£614,347	£561,614	£561,649

ing and warehouse companies operating in various parts of the world but mainly in South America.

The accounts are therefore presented with the parent company and colliery sections figures shown separately from the Wilson side of the stockholders' interests. 'The picture', the chairman remarks, 'would have been completely obscured by presenting consolidated accounts of the group as a whole.'

Changed Policy

There is particular need for the clearest possible view in the Ocean Coal & Wilsons accounts this year. After suffering from the foreign exchange upsets which now seem inseparable from South American operations the board have decided to withdraw entirely from some areas and to reduce operations to a considerable extent in others. Immediately after colliery nationalization the plan was to develop the Wilsons side of the group as a continuing business.

Now the policy is to repay ordinary capital to the extent of 1s on each 4s stock unit as soon as possible from available resources and to repay a further 6d when colliery compensation is nearer finality. The trading subsidiaries are to be placed on a financially stable and profit-earning basis without any further sterling investment so that advances from the parent company can be repaid.

Unfortunately the accounts will be seven months old by the time the company holds its annual meeting. The delay is understandable considering the special circumstances involved in the sale of overseas assets

and the calculation of special provisions to cover exchange losses in Brazil and estimated loss on stocks arising from the closure of businesses. The chairman's statement, however, gives a more immediate picture of the position.

'Portland Bill'

Employees of the Blue Circle Group of cement companies this year have 'Portland Bill' to explain the year's results to them. 'Portland Bill' has the same sort of vocabulary as 'Mr Cube' of Tate & Lyle and he has been created 'to help explain in simple terms some important facts and figures.' He does his job well.

One of his most interesting statements is that the stockholders in the group own assets with a current replacement cost of over £50 million so that stockholders supply the 10,693 employees of the organization in Great Britain with £4,675 worth of 'tools'. Total sales were £41,338,500 so that on average each employee produced £3,866 worth of sales income. This £3,866 is analysed into terms of raw materials, wages, taxes, depreciation, profit sharing reserves, interest and dividends.

Money Market

Treasury Bill applications totalled £385,680,000 of July 17th, and maintaining the bid at £99 8s 2d, the market obtained 48 per cent of requirements. The average discount rate was little changed at £2 7s 3·60c per cent. This week's offer is £240 million.

AND LEASEHOLD PROPERTIES LIMITED

Account for the year ended March 31st, 1953

	1953		1952	
	L.C.F. & L.P. Ltd	Group	L.C.F. & L.P. Ltd	Group
	£	£	£	£
Rents	2,217,247	2,217,247	2,099,083	2,099,083
Less General and Water Rate	471,830	471,830	450,991	450,991
	1,745,417	1,745,417	1,648,092	1,648,092
Less Ground-rents	153,531	153,531	151,336	151,336
Repairs, Redecorations and Renewals (based on Directors' calculation of annual provision), Portage, Fuel and other property outgoings, Professional Charges, Management Expenses, Insurance Premiums and Staff Pension Contributions	719,533	719,533	670,129	670,129
Income-tax for 1952-53 based on profits for current year	317,584	317,584	268,829	268,829
Profits Tax based on profits for current year	16,279	16,326	53,215	53,310
	1,206,927	1,206,974	1,143,509	1,143,604
Mortgage Interest receivable	538,490	538,443	504,583	504,488
Other Interest receivable	401	401	417	417
Sundry Receipts	2,550	2,550	3,670	3,670
Transfer Fees	1,714	4,536	2,263	4,791
	206	206	262	262
	£543,361	£546,136	£511,195	£513,628
Net Revenue for year brought down before charging Profits Tax attributable to dividends	£	£	£	£
Balance of Revenue brought forward from previous year	284,861	284,861	260,263	260,263
Income-tax Repayment claims for past years	289,451	289,486	287,351	287,386
	40,000	40,000	14,000	14,000
	£614,312	£614,347	£561,614	£561,649

Note.—Profits Tax has been divided into two parts so that the amount payable on the dividends is shown with the dividends as a part of the Appropriation Account. The Net Revenue for the year, if Income-tax and the whole of the Profits Tax is deducted, is £220,053 (1952, £199,454) being £618,771 (1952, £582,402) less Income and Profits Tax £398,718 (1952, £382,948).

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

What is the Object of Accounts?

SIR—I want to refer to Mr Briscoe's article 'Replacement profit is false' (*The Accountant*, June 6th, 1953) and to subsequent correspondence because I feel that the essential object of accounting—usefulness—has been insufficiently noticed.

Mr Briscoe used to tell us plainly of his concern in inflation for the bond-holder and the pensioner. In the article I refer to he forsakes their equitable claim to consideration, nails their banner to the mast of orthodox profit and argues that Keynesian economics show the truth of orthodox and the falsity of replacement profit. That his argument is ill-founded 'Pettifogger' (June 27th) and Mr Lacey (July 4th) have already pointed out. Will Mr Briscoe forgive my adding that it is unnecessary as well? This I add in the interests of bond-holder and pensioner and of sound accounting. On the one hand it is no help to the thinking-out of sound accounting theory to bring in the emotional appeal of those who lose through inflation. On the other, if a case to relieve them exists, it exists whether profits are computed by historical (or orthodox), by replacement or by revalued methods.

My main point is that the object of accounts is usefulness. They are wanted as a guide to rational action. It is easy to demonstrate that if the whole of historical profits are regarded as consumable income,

the owners' store of real wealth will be less at the end of the year than it was at the beginning. What is the purpose of computing profits if not to answer the question for managers, proprietors and legislators 'how much can we consume without eating into our store of real wealth (=next year's income-producing potential)?'

To deify historical costs as facts can misguide managers and legislators in the pricing of the products of a business. The Institute's palliative of placing some of the historical 'profits' to reserve is no help here. Nor is it certain to have the desired effect on the proprietors for whom it is mainly designed. It is a grudging admission that insufficient cash exists to justify a dividend equal to the 'profits' reported as having been earned. Both Mr Briscoe and the Institute blithely ignore the effect which the size of the profits reported have on people's minds. Big profits generate optimism in the business world and small profits pessimism. Reporting 'too big' profits can lead to excessive optimism and to economically unhealthy expansion; reporting 'too small' profits, to unnecessary pessimism, to declining activity and to criminal loss of welfare. This is what economists mean when they say that, in inflationary conditions, planned investment exceeds intended savings. They do not say, as Mr Briscoe infers, that actual investment and actual savings are unequal. *Per contra*, long

before Mr Briscoe's article of faith appeared, they have maintained that actual investment must equal actual savings. Actual investment and actual savings are brought to this necessary equality by:

- (a) unanticipated business gains and losses; and by
- (b) unintended (i.e. not voluntary) savings.

The business gains and losses are unanticipated in the sense that they arise from differences between the money values placed on stocks and equipment by historical accounting and the subsequently realized selling values and income-earning potentials. Under historical accounting methods, windfall gains on stocks are admitted (sometimes) in directors' reports. Unexpected losses on stocks appear in the following year as provisions for stock losses – if the stocks happen to be still unsold. If they happen to have been sold, they get buried without notice in the year's trading results. Gains or losses through new equipment being more or less profitable than anticipated, are rarely mentioned, chiefly because, under historical accounting methods, they are usually unnoticed.

May I turn from this rather rigorous treading over Mr Briscoe's chosen ground of savings and investment to Mr Reed's letter in your issue of July 4th? Mr Reed is guilty of the same extravagances as Mr Briscoe when he restates:

'that there is no flaw in the tried and trusted methods, and the solution to the problem (money *versus* real values) lies not in falsifying accounts . . . to deceive our legislators and the public to the extent of profits. . . .'

This kind of pre-judgment is to be deplored. Accountants must face up to the fundamental issue – which basis of valuation makes accounts most useful, i.e. of greatest service to the community? How can Mr Reed talk so vehemently about truth and falsity and put forward so naive an illustration. When goods are purchased for £1,000 and sold for £1,500, £500 is added to the cash balance. Had the £1,000 been kept in cash throughout, there would have been no addition to the cash balance. This establishes, says Mr Reed, that £500 profit has been made on the purchase and sale even if one postulates a price increase of 50 per cent in the meantime. In reality, it only shows that in conditions of rising prices, investing £1,000 in goods is a better proposition than holding on to it in cash! Mr Reed does not go on to tell us what happens if the £500 is regarded (as most people regard profits certified by accountants) as consumable income. The writing is on the wall.

Yours faithfully,

A. PAKENHAM-WALSH.

Dublin.

Economists and Replacement Costs

SIR, – As Mr Ross states (July 11th issue) the economists' function is to contemplate the economic system as a whole, wherein debits cancel credits. But no amount of argument will make the debits and credits vanish. They exist, and *whilst cancelling out*

in total cannot be ignored individually. When inflation puts profits into some pockets it takes losses from others; the reality of this will be attested to by all with money savings. Why then do economists pretend the profits do not exist and conveniently forget the losses?

When measuring income from profits one must use the same yardstick as for other incomes. The sale for £2,000 of goods costing £1,000 produces first as real a £1,000 as a salary of that amount. In an economic system one must work from the unit of exchange back to that unit. The economists befog the issue by taking in a second purchase of goods which belongs to the second business cycle, and then assert that no profit has been made. Obviously not! The process has not been completed by the sale of the goods.

If the £1,000 profit mentioned above purchases less than it would have done in previous years that is a fate common to all incomes, and business men well aware of the purchasing power of their personal incomes should not be misled by 'historical' profits. One final point on taxation. A person holding goods may be no better off as a result of inflation, but the holder of cash is much worse off. It is clear that the former is better able to contribute to the national exchequer.

Yours faithfully,

E. R. KERMODE.

Liverpool, 12.

Accountants and Secretaries and Section 161 (1) (b).

SIR, – Your correspondent, 'Chartered Accountant and Chartered Secretary' (issue July 18th) possesses a double qualification, and I respect that. However, I am sure he will not object if I make my own point clear, indeed he would expect me to do so. I must therefore question the logic of his statement that my suggestion requires complete rebuttal. What I have suggested is that *in addition* to the requisite experience gained in the offices of practising accountants, applicants under Section 161 (1) (b), must possess other recognized qualifications.

Surely no fault can be found with such a suggestion? It is hardly necessary to reiterate that all the recognized accountancy and secretarial examining bodies have a number of subjects in common.

I cannot think that it is suggested that experience alone is preferable to both experience and theory – which is gained only through many long hours of study. The two essentially go together.

I hope that the Companies Act will not be amended, either to preclude qualified secretaries from appointment as auditors under Section 161 (1) (b), or to preclude qualified accountants from appointment as secretaries to public companies.

Yours faithfully,

CHARTERED SECRETARY.

SIR HAROLD HOWITT HONoured

DEGREE CEREMONY AT OXFORD

WE have pleasure in congratulating Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., F.C.A., upon whom the honorary degree of Doctor of Civil Law was conferred in Convocation at Oxford last Saturday. We believe this to be the first time that a member of the accountancy profession has been honoured in this way by the University of Oxford.

In his address delivered in Latin, the Public Orator Mr T. E. Higham, Fellow of Trinity College, spoke of Sir Harold in the following words:

Cavete, Academici, ne hoc viro audiente Lyconis Plautini illa verba efferatis:

*beatus videor: subdixi ratiunculam,
quantum aeris mihi sit quantumque alieni siet:
dives sum, si non reddo eis quibu' debeo.¹*

hic enim haud ita pridem calculatorum nostratum

¹ *Curculio*, 371ff.

'Instituto' praefuit – eorum, dico, qui diploma publicum meriti rationes ita subducunt ut confectae ab eis tabulae 'perpetuae existimationis fidem et religionem' amplectantur,² nec cuiquam liceat divitias, quas non habeat, somnare. praefuit idem gentium internuntiis qui de rationibus computandis deliberarent; praefuit iuvenum Societati eandem vitae viam, quam ipse est persecutus, ineuntium; nunc autem ad aestivas calculatorum scholas doctrinam suam ac sapientiam confert. et mirificus mehercules rerum usus ad doctrinam eius adiungitur. iuvenis enim peregre depugnavit, atque ita, ut praeclara militiae decora sit adeptus; senior, cum denuo pugnandum esset, a summis belli aerii administris socius adsumptus est, nec non eis praesedit qui domibus sarcinendis et struendis materiem compararent. bellorum cum fieret intervallum, nunc terrae Rhodesiae rebus, nunc Borneonis insulae adiutor interfuit; nunc domi principum virorum mandatu rem pecuariam et annonam

macelli tractavit. est idem Mercatorum Scissorum Fraternitatis Magister, idem in Comitatu suo Irenarcha Legatique Regii inter vicarios. quis autem omni tempore aut iuventutis Britannicae aut commilitonum suorum commodis attentius deservit?

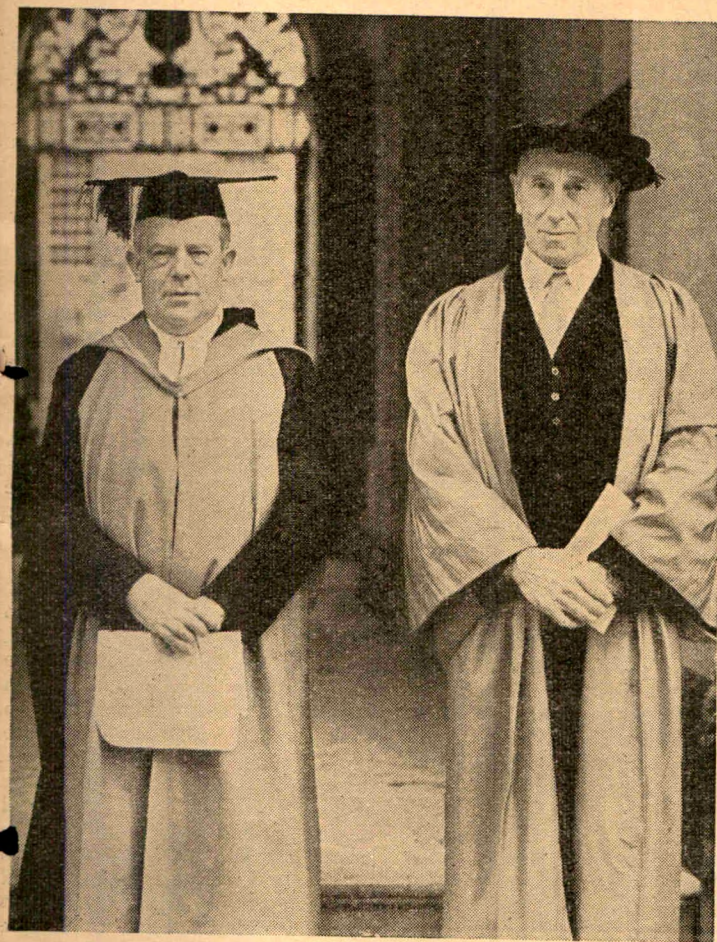
praesento vobis ratiocinatorum decus, Haroldum Gibson Howitt, excellentissimi Ordinis Imperii Britannici Magnae Crucis Equitem, ut admittatur honoris causa ad gradum Doctoris in Iure Civili.

English abstract of the Latin Oration

'Be careful not to speak, when our guests can hear you, like Lyco in the play of Plautus:

'I'm well-to-do, it seems. I've cast my books –
My trifling assets, liabilities –
And rich I am – if I don't pay my debts.'³

'For here is one who was President not long ago of the Institute of Accountants – I refer to those who are 'chartered' and whose principles of accountancy not only make their statements, when drawn up, 'implicit with the good faith and conscientiousness that ensure lasting respect'⁴ but allow no one to day-dream of riches which he does not in fact possess.



Sir Harold Howitt, (right) with Sir Maurice Bowra, Vice-Chancellor of Oxford University.

² Cf. Cic. *Pro. Q. Rosc. Com.* 2.7.

³ *Curculio*, 371ff.

⁴ Cicero, *Pro. Q. Roscio Comoedo*, 2.7.

'He was also President of an International Congress on Accounting, and President of the Chartered Accountants Students' Society;¹ and at the present time he is making his contribution of learning and wisdom to the Chartered Accountants' Summer School. Along with his learning goes practical experience remarkable in its variety. As a young man he went abroad on active service and won decorations of high distinction. Later in life, when we had to fight again, he was made a member of the Air Council and was also chairman of the Building

¹ More literally: 'He was President of the society of young men entering upon his own way of life.'

Materials Board. Between the two wars he was concerned with the affairs of Rhodesia and Borneo, and was also placed on Commissions dealing with livestock and agricultural marketing in the home country. He is Master of the Merchant Taylor's Company, a Justice of the Peace, and a Deputy Lieutenant of his county; and there is no one who at all times has devoted himself more diligently to the interests of the youth of our country and of his comrades in arms.

'I present to you for admission to the honorary degree of D.C.L. an ornament of the accountants' profession, Sir Harold Howitt, G.B.E.'

NATIONAL INSURANCE IN 1952

The Fourth Report¹ of the Ministry of National Insurance, published on July 17th, describes the administration of the national insurance, industrial injuries and family allowance schemes during 1952 and states that the Ministry paid out about £480 million in insurance benefits and family allowances in the year; received and accounted for about £450 million by way of insurance contributions, and maintained 26 million separate ledger accounts.

The following are among the matters of interest dealt with in the Report.

Family Allowances

In 1952, family allowances cost the Exchequer £77 million, £14 million more than in 1951, due largely to the higher allowances paid from September 2nd, 1952. At the end of the year about 3,100,000 families, containing about 8 million children were receiving allowances of 8s *od* a week for each child after the first within the age limits.

Just over 64 per cent of the families had two children under the age limits (i.e. were receiving one allowance of 8s *od*), and received about £32 million. Over 23 per cent had three such children, receiving about £23½ million, about 8 per cent had four, receiving £11½ million, and 4½ per cent had five or more, receiving £10½ million. It is estimated that there were also about 3¼ million families for whom no allowance was payable because they had only one child under the age limit.

Unemployment Benefit

The Ministry of Labour and National Service continued to administer unemployment benefit as agents of the Ministry of National Insurance. The standard rate of benefit of 26s *od* a week was increased to 32s *6d* with effect from July 24th, 1952. Of the people registered at Employment Exchanges in December 1951, about 207,000 were in receipt of unemployment benefit and about 27,000 others were in receipt of national assistance only. By December 1952, these numbers had increased to about 290,000 and 38,000 respectively, but the number of claims for the country as a whole never at any time reached 2 per cent of the estimated total number of employees. The cost of unemployment benefit as a whole was £14,795,000 for the year ended March 31st, 1952, a decrease of over £2 million compared with the previous year.

¹ Cmd. 8882. Price 3s *6d*.

Sickness Benefit

In July 1952, the standard rate of sickness benefit was increased from 26s *od* a week to 32s *6d*. In the early part of the year the number of persons receiving sickness benefit was consistently lower than at corresponding dates in any of the three previous years, and during July it reached its lowest point since 1948—744,000. From September onwards the number receiving benefit was higher than at the corresponding dates in 1951, and it rose to 937,000 during December.

The Report gives figures published for the first time by the Ministry, which analyse, according to diagnosis, medical certificates received in support of claims for sickness benefit. These show that more than a quarter of the spells of certified incapacity for work which ended in 1950, were due to influenza or bronchitis. The total cost of sickness benefit for the year ended March 31st, 1952, was £63,301,000—over £5 million less than in the previous year.

Retirement Pensions

In September, 1952, the standard rate of retirement pension was further increased to 32s *6d*. The total number of people receiving retirement pensions went up during 1952 to about 4,150,000. During the year, about 305,000 new pensions came into payment, including about 75,000 to the wives of pensioners in right of their husbands' insurance. Out of the total expenditure of £389 million on all national insurance benefits during the year ended March 31st, 1952, about £275 million was on retirement pensions.

Finance

Income to the National Insurance Fund amounted to about £557 million in the year ended March 31st, 1952. This included £417 million in contributions from employers and insured persons, £108 million from the Exchequer and £32 million income from investments of this fund and the National Insurance (Reserve) Fund.

Payments totalled just over £460 million, including £389 million for benefits, £41 million to the National Health Service and £24 million for administration. The excess of receipts over payments for the year was approximately £98 million and the balance in the fund at March 31st, 1952, was approximately £577 million compared with £479 million on April 1st, 1951. The balance in the National Insurance (Reserve) Fund was £783 million.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship at the Council meeting held on July 8th, 1953, who completed their Fellowship before July 21st, 1953.

Associates elected Fellows

- Bedford, Thomas; 1948, A.C.A.; (Blackburns, Robson, Coates & Co), City Chambers, Infirmary Street, Leeds, 1, and at Bradford, London and Manchester.
- Deith, Raymond Cecil; 1928, A.C.A.; (Norton, Deith & Co), 14-18 Queen Victoria Street, London, EC4, and at Felixstowe.
- Giuseppi, Denis Paul; 1938, A.C.A.; (Palmer, Guiseppi & Co), 6 & 8 Market Place, Oakham, Rutland.
- Pollard, Clifford, B.COM.; 1926, A.C.A.; Williams Deacons Bank Chambers, 2 The Downs, Altrincham, Cheshire.
- Webb, Rupert Dudley Clarkson; 1921, A.C.A.; Granville House, Arundel Street, London, WC2.

(Not in England or Wales)

- Sykes, Edward Heath; 1937, A.C.A.; (Buckle, Sykes & Weatherly), Chartered Bank Chambers, Beach Street, Penang, Malaya.
- Weatherly, Frederick, M.C.; 1939, A.C.A.; (Buckle, Sykes & Weatherly), Chartered Bank Chambers, Beach Street, Penang, Malaya.

RESULTS OF MAY 1953 INTERMEDIATE AND FINAL EXAMINATIONS

Notices to candidates who sat for the Institute's examinations last May were posted on Friday, July 24th. A full list of successful candidates will be displayed at the Institute from 12 noon on Tuesday next, July 28th, and will be published in these columns next week.

Personal

MR J. L. BAYLIFFE, A.S.A.A., A.T.I.I., announces that he has ceased to practise under the name of DAVIDSON & CO, Incorporated Accountants, and that as from July 14th, 1953, he has commenced to practise at the same address, 5A Hammet Street, Taunton, under the name of J. L. BAYLIFFE & Co.

MESSRS LAMBETH, JOHNSTONE & Co, Chartered Accountants, of 199 Piccadilly, London, W1, and at Cheltenham, Gloucester, Slough and Stroud, announce the amalgamation of the firms of CLEMETSON, JOHNSTONE & Co, R. W. LAMBETH & Co, and ROBERTSON, HILL & Co, under the new style of LAMBETH, JOHNSTONE & Co, Chartered Accountants. Mr H. C. HOBBS, F.C.A., a partner in the firms of CLEMETSON, JOHNSTONE & Co, and ROBERTSON, HILL & Co, has retired from active practice and Mr E. B. ORR, B.A., F.C.A., has been admitted as a partner in the new firm.

MR L. G. HARRIS, F.S.A.A., announces that as from July 1st, 1953, he has moved his office address from 72 Finsbury Pavement, London, EC2, to 3 Red Place, London, W1. Telephone: Mayfair 0708.

Obituary

PERCY MORGAN-JONES, F.C.A.

We have learned with deep regret of the death at Eastbourne last Sunday, of Mr Percy Morgan-Jones, F.C.A., senior partner in the firm of Edmonds & Co, Chartered Accountants, of Eastbourne, Portsmouth and London.

Mr Morgan-Jones, who was admitted an associate of the Institute in 1899, and elected a fellow in 1915, had been a member of the Council of the Institute since 1937, and was a past chairman of the District Societies Committee and the Applications Committee, and a member of the Library Committee.

He had been with his firm at Eastbourne for 63 years and had served on the committee of the South Eastern Society of Chartered Accountants since its formation in 1932, being President in 1935.

Mr Morgan-Jones will be remembered by many members for his keen participation in the Institute's Summer Courses at Oxford. He was a freemason and a rotary club member.

CHARLIE BATES, F.C.A.

It is with regret that we record the recent death, after a short illness, of Mr Charlie Bates, F.C.A., a partner in the firm of R. H. March, Son & Co, Chartered Accountants, of Cardiff and London.

Mr Bates, who was 70, was admitted an associate of the Institute in 1909 and elected a fellow in 1924. He had been a partner in his firm since 1919 and had continued in practice up to the time of his death.

A well-known sportsman, he played lacrosse for Wales and in his younger days was a keen tennis, cricket and hockey player. He was a member for many years of Radyr Golf Club and on several occasions competed in the Welsh Amateur Golf Championship.

Board of Trade Annual Report on Companies

The general annual report for 1952¹ on matters relating to companies has just been issued by the Board of Trade. The introductory paragraphs describe the more important company matters dealt with by the Board, which include: the progress of registrations; the number of companies on the registers; the winding-up of companies; the administration of the Companies Act under various provisions; appointments of inspectors to investigate the affairs of companies; and prosecutions by the Board of Trade. The general information is supplemented by detailed statistical tables for comparison with previous years. A list of Orders and Regulations made under the Act is also included.

The report shows that 277,664 companies were on the registers in Great Britain on December 31st,

¹Companies General Annual Report by the Board of Trade for the year ended December 31st, 1952. H.M.S.O. Price 1s 3d - by post 4s 5d.

1952 (compared with 270,017 at December 31st, 1951). Of these 16,875 were public companies and 260,789 were private companies; the comparable figures for 1951 were 17,029 and 252,988 respectively.

During 1952, 12,296 new companies were registered (13,524 in 1951); of these 12,170, comprising 21 public and 12,149 private companies, were registered with a share capital, the total capital of the companies so registered being £52 million. The total capital in the previous year was £96.2 million. During the year, 4,649 companies were dissolved or struck off the registers, as against 5,197 in 1951, and winding-up proceedings were begun in 3,323 (2,954 in 1951) cases, of which 445 (411 in 1951) were compulsory liquidations.

The Society of Incorporated Accountants and Auditors

DINNER TO THE LORD MAYOR

The President, Mr C. Percy Barrowcliff, F.S.A.A. and the Council of The Society of Incorporated Accountants and Auditors gave a dinner at Incorporated Accountants' Hall last Monday in honour of the Lord Mayor of London. Among the guests present were:

Sir Bernhard Binder, Sir Leslie Bowker, Sir John Braithwaite, Sheriff Sir Sidney Fox, Alderman and Sheriff Sir Harold Gillett, Sir Wyndham Hirst, Sir Gerald Kelly, Sir Norman Kipping, Sir Denys Lawson, Sir Brian Mountain, Lord Percy, Mr Howard Robertson, The Very Reverend W. R. Matthews, Dean of St Paul's, Major-General Sir Edward Spears, Sir Percy Thomas, Judge Ralph Thomas, Mr Frank Travers, and Sir James Turner.

The toast of 'The Lord Mayor and the Corporation of London' was proposed by Mr Barrowcliff and the Lord Mayor, Sir Rupert de la Bère, responded.

Mr Bertram Nelson, F.S.A.A., Vice-President of the Society, proposed the toast of 'The Guests' to which The Very Reverend W. R. Matthews, responded.

Seventh International Congress on Accounting

THE NETHERLANDS' INVITATION ACCEPTED

The seventh International Congress on Accounting is to be held in Holland in 1957. Following the Sixth International Congress which took place in London last year, several countries proffered hospitality for the next Congress and the accountancy bodies throughout the world have now indicated a clear preference for the acceptance of the invitation of the Netherlands.

The secretary of the Sixth International Congress has accordingly written to the Nederlands Instituut van Accountants accepting the invitation and asking them to commence making the necessary arrangements. The name and address of the Secretary of the Nederlands Instituut are: Mr H. C. Treffers, Secretaris, Nederlands Instituut van Accountants, Amsterdam C, Herengracht 491, Netherlands.

London and District Society of Chartered Accountants

Mr W. G. Densem, F.C.A., was elected chairman of the London and District Society of Chartered Accountants for 1953-54 at a recent meeting of the committee, and Mr J. H. Mann, M.B.E., M.A., F.C.A., was elected vice-chairman. Mr Densem, together with Messrs E. K. Wright, M.A., F.C.A., A. H. Cheney, A.C.A., and A. P. Ravenhill, F.C.A., has been appointed a representative of the Society on the Institute's Taxation and Research Committee.

Other recent changes in the Committee of the Society are as follows

Members in Practice

Mr D. A. Clarke, LL.B., F.C.A., and Mr E. F. G. Whinney, M.A., F.C.A., retired upon their election to the Council of the Institute, and Mr G. F. Ansell, A.C.A., and Mr J. D. Russell, M.A., A.C.A., have been elected. Mr J. H. Mann, M.B.E., M.A., F.C.A., retired by rotation and was re-elected.

Mr Clarke and Mr Whinney remain, with Mr G. L. C. Touche, B.A., F.C.A., as the members appointed by the Council; Sir Harold Gillett, M.C., F.C.A., and Mr L. W. Robson, F.C.A., have ceased so to serve.

Members not in Practice

Mr J. Clayton, A.C.A., retired upon his election to the Council of the Institute and Mr C. W. Aston, A.C.A., was elected; Mr E. H. Davison, A.C.A., retired by rotation and did not seek re-election; Mr L. P. Cleminson, M.A., A.C.A., has been elected.

Member Employed in the Service of a Practising Accountant Mr B. D. Barton, A.C.A., has been elected by the Committee, no nominations having been received in respect of the vacancy created by Mr A. N. Hollis, D.F.C., A.C.A., having commenced to practice.

Annotated Tax Cases

Part IV of Volume XXXII of the *Annotated Tax Cases*, edited by Roy Borneman, q.c., is published today and contains reports, with notes on the judgments, of the following cases: *Harvey v. Breyfogle* (H.L.); *Thomas v. Marshall* (H.L.); *Household v. Grimshaw* (Ch.D.); *Hutton v. C.I.R.* (Ch.D.); *Morgan v. Tate & Lyle Ltd* (C.A.); *C.I.R. v. Walker Cain Ltd* (Ch.D.); *C.I.R. v. Universal Grinding Wheel Co Ltd* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co. (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* JULY 27TH, 1878

To the Editor of the Accountant.

Income Tax

SIR,—With respect to a letter in this day's *Accountant*, I think there can be no doubt as to the 5d. in the pound.

The rate of income tax in force for the present fiscal year, which commenced on the 6th of April, is 5d. in the pound—consequently all dividends payable during the fiscal year are subject to the tax of 5d. in the pound.

Yours, &c.,

July 20th, 1878.

G. H. C.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS

Results of Examinations held in May 1953

FINAL EXAMINATION Parts I and II

Honours Candidates (7)

First Certificate of Merit and First Prize
Hender, John Derrik (City Treasurer's Department), Coventry

Second Certificate of Merit and Second Prize
Marriott, James Alan (with Hodgson, Harris & Co), London

Third Certificate of Merit and Third Prize
Davis, Desmond Frederick (with Barton, Mayhew & Co), London

Fourth Certificate of Merit
Plumpton, Allan Lionel (with Keeling & Co), London

Fifth Certificate of Merit
Green, John Edwin Vernon (Borough Treasurer's Department), Walthamstow

Sixth Certificate of Merit
Roullier, John Harry (with Farrow, Bersey, Gain, Vincent & Co), London

Seventh Certificate of Merit
Kell, Ronald Wilson (with Peat, Marwick, Mitchell & Co), Datlington

Aberdeen

Robb, D. A. (with Jas. A. Jeffrey & Co).

Arbroath

Herd, I. L. (Town Chamberlain's Office).

Armagh

Wilson, D. I. (with Rawlinson, Allen & White).

Aylesbury

Ramsden, A. B. (with R. Ramsden).

Bangor

Knowles, T. R. (with Highfield, Pritchard & Mumby).

Barrow-in-Furness

Johnson, D. J. (with Peat, Marwick, Mitchell & Co).

Bath

White, E. G. (with Ralph D. Owen & Co).

Beaconsfield

Gross, A. W. (with F. L. Rouse & Co).
Harding, D. L. (with F. L. Rouse & Co).

Bedford

Bean, H. K. (County Treasurer's Department).

Belfast

Bustard, G. D. (with Muir & Addy).
Griffith, T. J. F. (with Olver & Spence).
Harris, R. E. (with Martin Shaw, Leslie & Shaw).
Kirk, J. (with Hill, Vellacott & Bailey).
Steele, J. F. (with Brown, Lewis & White).

Birmingham

Bartram, A. (with Russell, Durie Kerr, Watson & Co).
Bennett, G. J. (with Clement Keys & Son).
Nutt, K. R. (with W. R. Lane, Son & Riley).
Reardon, R. P. (with Russell, Durie Kerr, Watson & Co).
Woodcock, G. (City Treasurer's Department).

Blackburn

Hesketh, W. (with Frank A. Astley).

Bolton

Culshaw, G. (with Harper, Pilling & Co).

Bombay

Cheryan, P. O., B.A. (formerly with Gondalia & Mandviwalla).
Golvala, K. P. (with Sorab S. Engineer & Co).
Tarapore, P. J. (with Kalyanivalla & Mistry).

Bradford

Dolan, J. (with R. S. Dawson & Co).
Goodall, G. (with Dickinson, Keighley & Co).
Hardwick, W. D. (with Rawlinson, Greaves & Mitchell).
Morton, C. H. (with Charles D. Buckle & Co).
Nicholson, W. (with Rawlinson, Greaves & Mitchell).

Bridport

Knight, P. J. (with G. L. Atherton & Co).

Burnley

Lomas, B. (with Rawlinson, Hargreaves, Smith & Wood).

Canterbury

Cozens, E. J. (with Larking & Larking).

Cardiff

Booker, E. S. (with Alfred D. Thomas).
Burchell, G. G. M. (with Sweeting, Pearce, Davies & Co).
Littlestone, N. (with David N. Curitz).

Carlisle

Hall, J. (with Duthie & Son).
McPhail, A. (formerly with Duthie & Son).
Slack, R. M. (with Duthie & Son).

Chesham

Lane, H. J. N. (with George Hay & Co).

Chester

Middleton, N. S. (Ministry of Housing and Local Government).

Cirencester

Goodale, F. N. (with Midwinter & Rhodes).

Clitheroe

Briggs, J. H. (with Kilner & Farnell).

Coleford

Baker, R. J. (with Geoffrey T. Barter).

Consett

Routledge, R. T. (with J. M. Nicholson & Co).

Cork

Foley, W. A. (formerly with Kirby & Kirby).
O'Connor, N. J. (with C. P. McCarthy, Daly & Co).
Shinnick, C. (formerly with C. P. McCarthy, Daly & Co).

Coventry

Cribdon, J. (with Chaplin, Hall & Co).
Salmon, D. H. (with Chaplin, Hall & Co).

Croydon

Long, D. M. (with Boden, Swaysland & Co).

Darlington

Thayfield, S. (Ministry of Housing and Local Government).
Tharratt, B. E. (with Peat, Marwick, Mitchell & Co).

Derby

Gillanders, W. (with Nutt, Horne & Co).
Ravensdale, R. C. (with Nutt, Horne & Co).

Dewsbury

Whiteley, J. (with G. L. Hirst & Co).

Doncaster

Noble, J. B. (with Alfred F. Girling).

Dorchester

Rimmer, J. E. (with Edwards & Edwards).

Douglas (I.O.M.)

Currie, G. W. (with Albert Hill & Co).

Dublin

Keegan, E. J. (with Purnell, Davenport, Tierney & Co).
Lightbody, J. E. M. (with William C. Ribbeck & Co).
Morris, T. W. R. (with J. A. Kinnear & Co).
Walsh, R. G. (with J. A. Kinnear & Co).

Dudley

Bengree, J. S. (with Wm. Lloyd & Co).

Dundee

Brown, A. (formerly with Don & Stewart).

Edinburgh

Gray, A. S. (with Scott & Paterson).
Hamilton, I. D., B.COM. (Department of Health).
Peck, J. F. A. (Ministry of Labour and National Service).

Epsom

Humphreys, L. (with Kennedy, Smellie & Co).

Exeter

Creedy, P. W. (with W. W. Beer, Aplin & Co).

Exmouth

Snell, D. M. (with S. J. G. Southon & Co).

Falkirk

Morrison, I. (with Festus Moffat & Co).

Glasgow

McRobbie, Miss A. T. (with Robert Fraser).

Guernsey

Mollett, C. S. (with Black, Geoghegan & Till).

Halifax

McMahon, J. J. (Borough Treasurer's Department).

Hayes

Cole, J. G. (formerly with F. A. Magee & Co).

Sims, J. A. (with F. A. Magee & Co).

Hereford

Yeo, H. D. (with Thorne, Widgey & Co).

Hexham

Proud, R. (with Dixon, Brown & Co).

Hitchin

Armstrong, R. J. (with S. McCombie & Co).

Horsham

Cole, M. J. E. (with Philip T. Bryant).

Hounslow

Velupillai, S., B.Sc. (with Harmon Smith & Co).

Huddersfield

Davison, F. A. (with J. R. Davison & Co).

Field, K. N. (with J. R. Davison & Co).

Jackson, K. (with Pattimore & Dyson).

Hull

Chapman, P. R. (with Hodgson, Harris & Co).

Dobson, C. C. (with Hodgson, Harris & Co).

Fewlass, J. W. B. (with Hodgson, Harris & Co).

Hudson, R. F. (with Goldie, Campbell & Robins).

Waudby, R. (with Goldie, Campbell & Robins).

Keighley

Hayhurst, W. (Borough Treasurer's Department).

Kitchen, G. L. (with Cryer & Kitchen).

Leeds

Beddard, H. J. (with Croudson & Co).

Bridgmount, F. (with Peat, Marwick, Mitchell & Co).

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Hemingway, J. (with John Gordon, Walton & Co).

Hirst, F. C. (formerly with Croudson & Co).

Lunn, D. W. (with John Gordon, Harrison, Taylor & Co).

Parker, D. F. (with Fredk. & C. S. Holliday).

Strickland, P. E. (with Brown, Butler & Co).

Tasker, D. (with Sir Charles H. Wilson & Co).

Leicester

Brooks, T. B. (with Shirley, March, Bosworth, Cramp & Co).

Jeffs, W. C. (with John Rowley & Co).

Newcombe, D. W. (with Wykes & Co).

Rhodes, D. A. (with Thomas May & Co).

Smith, W. F. (with Alfred G. Deacon & Co).

Lincoln

Chidzey, C. H. (Ministry of Housing and Local Government).

Laverack, J. A. (with Harlow, Ward & Smart).

Liverpool

Bennett, W. (with Hopkins, Stevenson & Co).

Evans, M. (with Charles E. Dolby & Son).

Heller, S. I. (formerly with J. Sloan & Co).

Lowther, J. B. (with Lithgow, Nelson & Co).

Riley, N. A. (with Simon Jude & West).

London

Akerman, S. R. (with Gray, Stainforth & Co).

Allen, E. P. (with Alfred Wright & Co).

Anderson, A. D. J. (with Smith & Williamson).

Balkin, S. (with S. Brief & Co).

Barkshire, F. W. (with Peat, Marwick, Mitchell & Co).

Basu, N. K., B.A. (with Edward Boyles & Co).

Bayliss, E. H. (Holden, Howard & Co).

Beale, G. M. (with B. de V. Hardcastle, Burton & Co).

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Bennett, K. L. (with Moore, Stephens & Co).

Berman, S. (with Wilson Wright & Co).

Boddington, J. (with Harold C. Wright, King & Co).

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Brown, G. W. (with Viney, Price & Goodyear).

Brown, Reuben (with A. T. Chenhalls & Co).

Buckle, E. C. (with Peat, Marwick, Mitchell & Co).

Cartwright, W. J. (with Cooper Brothers & Co).

Chakraborty, B. R., B.Sc. (with Percy Phillips & Co).

Chignell, H. L. (with Holroyd, Northcott & Co).

Clinch, C. C. J. (with Gibson, Appleby & Co).

Couzens, L. H. (Comptroller's Department, Metropolitan Water Board).

Crawley, L. C. (with Charles Comins & Co).

Cross, H. W. (Colonial Audit Department).

Cuthbert, J. R. T. (with Silversides, Slack & Barnaley).

Eales, B. J. (with Broads, Paterson & Co).

Edwards, A. F. (with Cooper Brothers & Co).

Eggert, M. A. (with Alexander B. Neil & Co).

Esnouf, F. J. (with Pawley & Malyon).

Everett, K. A. J. (with Farrow, Bersey, Gain, Vincent & Co).

Fenton, J. R. R. (with Cooper Brothers & Co).

Good, D. H. (with Viney, Price & Goodyear).

Gray, S. (with Metcalfe Collier, Hayward & Blake).

Greatbanks, E. J. (with Newman, Ogle, Bevan & Co).

Green, D. W. (with Farrow, Bersey, Gain, Vincent & Co).

Green, E. J. (with Button, Stevens & Witty).

Green, J. P. (with Pike, Russell & Co).

Halley, W. E. (with Hodgson, Harris & Co).

Hardy, P. F. (with Clements, Hakim & Co).

Harkem, A. H. E. (with Gordon Hawley & Co).

Hawke, F. C. (with Deloitte, Plender, Griffiths & Co).

Hayes, E. G. (with Eric H. Ascher & Co).

Hayward, W. F. (with Wright, Fairbrother & Steel).

Heard, R. W. (with Prideaux, Frere, Brown & Co).

Heavens, R. J. (with Cooper Brothers & Co).

Hendre, J. F. (with Cooper Brothers & Co).

Hollamby, D. (with D. J. Brass, Scott & Co).

Hughes, J. M. (with Franklin, Wild & Co).

Johnson, P. B. (with Woodington, Bubb & Co).

Kimbble, B. H. (with B. de V. Hardcastle, Burton & Co).

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Marks, D. B. (with Peat, Marwick, Mitchell & Co).

Maynard, G. F. (with Barker, Williams & Co).

Mercer, K. (with Finnie, Ross, Welch & Co).

Midcalf, R. W. (Borough Treasurer's Department, Holborn).

Mourgue, H. G. (with Harker, Holloway & Co).

Oliver, J. E. (with Allan, Charlesworth & Co).

Page, D. G. (with Lithgow, Nelson & Co).

Penfold, E. A. C. (with Deloitte, Plender, Griffiths & Co).

Potticary, W. G. (with Charles Comins & Co).

Pulley, K. (with Spicer & Pegler).

Richards, A. J. (Warley & Warley).

Rink, D. J. (with Shipley, Blackburn, Sutton & Co).

Rivett, E. L. (with Keeling & Co).

Secker, F. J. (with Brown, Peet & Tilly).

Shaw, R. J. (with J. A. Greenfield).

Sheridan, J. (with S. Brief & Co).

Simmonds, P. J. (with Townsend, Watson & Stone).

Simmons, D. O. (with Blakemore, Elgar & Co).

Slater, J. D. (with Cooper Brothers & Co).

Smith, A. H. (with L. H. Findlay & Co).

Stephens, J. E. C. (with Brown, Peet & Tilly).

Taylor, E. A. (with Binder, Hamlyn & Co).

Van den Bergh, C. E. (with Price Waterhouse & Co).

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 Wayman, J. F. (with Hobbs, Peskett & Co).
 White, B. C. H. (with Josiah Beddow & Son).
 Wilkins, A. P. (with Joel Auerbach).
 Wilkinson, D. L. (with Brown, Peet & Tilly).
 Williams, D. G. (with R. G. Kirkpatrick & Co).
 Wilson, H. E. (with Josolyne, Miles & Co).
 Wise, P. R. (with Hibbert, Sier, Woods & Co).

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Watts, D. J. (with Keens, Shay, Keens & Co).

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 Robson, A. K. (with James L. & F. S. Oliver).

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Wright, F. B. (F. B. Wright).

Newport, Mon.

Jones, D. T. (with Friend, Ellis & Co).
 Symons, R. (with Rowland Jenkins & Co).
 Thomas, G. A. (formerly with C. T. Stephens & Co).

Newton Abbot

Luscombe, T. G. W. (with W. E. Reynolds & Co).

Northampton

Sketchley, P. T. (formerly with Horace E. Lacey).

Norwich

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 Upshaw, E. L. (with Culley & Co).

Nottingham

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Whitley, J. (formerly with Thornton & Thornton).

Paris

Wells, M. T. (with Deloitte, Plender, Griffiths & Co).

Penrith

Mitchell, J. A. (with N. T. O'Reilly & Partners).

Penzance

Broad, H. P. (with Whitaker & Redfearn).

Plymouth

Franks, D. J. (with White & Pawley).

Poole

Sartin, D. J. (with Edwin G. Pulsford).

Portsmouth

Butcher, F. C. D. (with Edmonds & Co).

Preston

Sudell, W. F. (with Whitehead & Aldrich).

Ryde (I.O.W.)

Bostock, R., B.COM. (Borough Treasurer's Department).

Sheffield

Illingworth, J. W. (with Garnett, Depledge & Lewis).
 Peace, D. (with Wells, Richardson & Co).
 Reaney, K. (with Macredie & Evans).
 Taylor, D. W. M. (with Cunningham, Priestley & Co).

Skipton

Wicks, W. A. K. (with Weston, Whalley & Jackson).

Southampton

Lyon, J. F. (with Beal, Young & Booth).
 Scopes, J. L. (with Westlake, Clark & Co).
 Young, J. B. (with Beal, Young & Booth).

Spalding

Creasey, E. W. (with Smith, Thompson & Co).

Stockport

Burgon, B. (with John McIntyre).

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Barry, G. R. (with Richard Jewitt, Sparrow & Co).

Stoke-on-Trent

Johnstone, D. P. (with J. Paterson Brodie & Son).
 Lowe, W. H. (with Bourner, Bullock & Co).

Stroud

Price, W. B. (with S. J. Dudbridge & Sons).

Swansea

Johnson, K. J. (with Ashmole, Edwards & Goskar).

Taunton

Brown, J. R. (County Treasurer's Department).

Walsall

Davis, K. (with Walter J. Edwards & Co).

Waterford

Phelan, W. G. (with T. R. Chambers, Halley & Co).
 Purcell, P. J. (with W. A. Deevey & Co).

Wellingborough

Britchford, D. E. (with James & Sanders).

West Hartlepool

Bamford, A. (Deputy Borough Treasurer).
 Kent, G. W. (with Wm. Fortune & Son).

Wisbech

Salmon, A. D. (with Larking, Larking & Whiting).

Wolverhampton

Field, R. H. (with H. Davies & Co).
 Latham, C. F. (with M. Alex. Walker).

Worcester

Collins, G. C. (with Rabjohns, Leopard & Co).

Worthing

Garrett, D. P. (with Arthur Stubbs & Spofforth).

York

Bollada, D. (with Stephenson, Smart & Co).
 Wragg, G. D. (formerly with W. D. Garbutt & Elliott).

(Candidates Passed 262)**FINAL EXAMINATION Part I only**

Names on request to the Secretary.

Candidates Passed (204)

FINAL EXAMINATION Part II only

Names on request to the Secretary.

Candidates Passed (200)

The next examinations of the Society will be held on November 10th, 11th, 12th and 13th, 1953. Completed applications should reach the Secretary *not later* than Monday, September 21st, 1953.

Summary of Results

Candidates	Final			Intermediate	Preliminary	Modified Preliminary
	Parts I & II	Part I	Part II			
Passed	42	231	200	335	37	40
Failed	75	398	66	493	111	45

Sixteen candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part I only.

Thirty-six candidates who sat for Parts I and II of the Final examination satisfied the examiners in Part II only.

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INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

Results of Examinations held in May 1953 FINAL EXAMINATION

PART A

(in alphabetical order)

- *Adams, E., Greenock.
- *Adams, F. A., Leeds (A) Group H.M.C.
- Ballantyne, R. L., Dumfries.
- *Bardwell, J. H., Norfolk C.C.
- Barker, J. H., Coventry C.B.
- Bartlett, N. A., Gloucestershire C.C.
- †Batty, R. I., Keighley B.
- *Bawler, K. J., Taunton B.
- Bence, R. M. R., Burton-on-Trent B.
- *Bierston, D. G. N., Hertfordshire C.C.
- *Billinghurst, C. G., Norfolk C.C.
- *Bonner, J., Haslingden B.
- *Bowes, R. W., South Shields B.
- Brett, R. H., Leicester C.B.
- Burrell, P., London C.C.
- *Chaplin, N. J., Cardiff C.B.
- Chapman, R., Northampton B.
- Christie, C., Middlesbrough B.
- *Clapham, F., Urmston, U.D.C.
- Clark, A. G., Leicestershire C.C.
- *Connell, D. A., Ipswich B.
- *Corbin, F. H., New Forest R.D.C.
- Cox, E. H., Penarth U.D.C.
- *Craddock, I., Coventry C.B.
- Crosse, P. S., Luton B.
- *Davies, R. R., Cheshunt U.D.C.
- *Dexter, R. A., Blaby R.D.C.
- *Drury, J. H., Denbighshire C.C.
- Durbin, A. T., Barry B.
- *Ellis, C. A., London Corporation.
- Fenton, W. J., London C.C.
- *Fisher, W. J. H., Plymouth C.B.
- *Fleming, E. M., Hamilton.
- Foskett, R. G., Newcastle under Lyme B.
- *Garlick, R. H., Wiltshire C.C.
- *Gibbons, I. G., Luton B.
- *Gibbs, R. E., Essex C.C.
- Gratton, E. K., Clitheroe R.D.C.
- *Gravely, K., Essex C.C.
- Greaves, B. W., Finchley B.
- Greville, W. P. L., Carmarthen R.D.C.
- *Halliday, E. I., Bootle B.
- Haslam, A., Middleton B.
- *Heape, G. E., Brentford and Chiswick B.
- Hill, J., Liverpool C.B.
- Hilton, J. A., Rochdale B.
- *Hodson, F. B., Barrow in Furness B.
- *Holland, K. A., Isle of Wight C.C.
- Holmes, R. A., Sevenoaks R.D.C.
- Honywill, J. F., Plymouth C.B.
- *Hope, A. S., Eastbourne B.
- Hughes, S. T., Coventry C.B.
- Irving, G. A., York C.B.
- Jackson, G. E., Friern Barnet U.D.C.
- Jeavons, G. G., Corby U.D.C.
- *Jenkins, W. B., Leicestershire C.C.
- Johns, A. J. W., London Corporation.
- *Johnson, P. E., East Midlands Gas Board
- *Jones, A. T., Cheshire C.C.
- *King, D. F., Lowestoft B.
- Laming, P. F., Camberwell B.
- Langstone, J. T., Walsall B.
- *Latham, K., Stoke-on-Trent C.B.
- Lewis, D. E., Sussex (West) C.C.
- *Lewis, R. C., Aylesbury B.
- Limbirt, B., Leeds C.B.
- Luke, A., Glamorgan C.C.
- *Lynch, E. J. F., St Albans R.D.C.
- *Marr, J. G., Yorkshire (East Riding) C.C.
- Mattingley, E. J., Abingdon R.D.C.
- Maxwell, A. R., Cowdenbeath.
- *McGreal, K. J. M., Worcester C.B.
- *McKenzie, G. B., Newport (Mon.) B.
- McLaren, A. D., Kingston upon Hull C.B.
- *Mogridge, L. S., Exeter C.B.
- *Mold, S. H., Essex C.C.
- *Morris, I. F., West Bromwich B.
- *Mortimer, R. G., Leicestershire C.C.
- *Motttram, K., Leicestershire C.C.
- *Myers, H., Cheshire C.C.
- Norris, A. L., Harrogate B.
- O'Brien, B. F., Worthing B.
- Pearce, K. J., Salisbury C.B.
- Phillips, V. F., Berkshire C.C.
- *Phillips, W. D., Deal B.
- Plowman, L. A., Croydon B.
- *Prescott, L. R., Manchester C.B.
- Preston, A. I., Sheffield R.H.B.
- Pringle, R. E. H., Stockton-on-Tees B.
- Protheroe, J. H., Hemel Hempstead Development Corporation.
- Purser, D. G., Nairobi.
- *Raby, W., Todmorden B.
- Raven, M. A., Nottingham C.B.
- Richards, J. C., Torquay B.
- Ridley, P. S., Brighton B.
- Robinson, R. W., Southampton B.
- *Rockley, L. E., Leicester C.B.
- Rose, J. D., Nottingham C.B.
- Sands, R. L., Liverpool C.B.
- *Scott, J., Hemel Hempstead B.
- Shakespeare, F. W., Bullingdon R.D.C.
- *Shuttleworth, J. A., Huddersfield B.
- Smith, J., Lancashire C.C.
- Smith, J. I., Lancashire C.C.
- Stancliffe, B., Huddersfield B.
- *Stubbs, A. C., Rugby B.
- *Swan, J. L., Bromley B.
- *Taylor, D. J., Birmingham C.B.
- Thompson, T. B., Sunderland B.
- *Town, B. S., Harrogate B.
- *Townsend, R. A., Leicester No. 2 H.M.C.
- *Ulyatt, L. D., Lincolnshire (Lindsey) C.C.
- Ward, M. J., Lewisham B.
- *Watts, R., Yorkshire (West Riding) C.C.
- Whetham, R. I., Southend-on-Sea B.
- *Whitaker, H., Lytham St Annes B.
- *Wilcox, G. J., Northampton B.
- *Wink, A., Clackmannan C.C.

* Passed Part B/1 at a previous examination.

† Passed Part B in May 1953.

PART B

(in alphabetical order)

- *Anderson, J. W., North of Scotland Hydro Electric Board, Aberdeen Area.
- †Batty, R. I., Keighley B.
- Boyle, L., Midlothian C.C.
- *Bradley, T. R., York C.B.
- *Casson, V. S., Swindon B.
- Cowgill, D., Cudworth U.D.C.
- Crook, D. R., Caernarvon and Anglesey H.M.C.
- Foley, D., Manchester C.B.
- *Gibb, W., Ramsgate B.
- Græbe, B. J., Eastbourne B.
- *Hadley, J. W., Walsall B.
- *Harman, D. G. H., Hastings B.
- Harrison, H. M., Oxford R.H.B.
- *Harwood, J., Halifax B.
- *Henderson, A. T., Sunderland B.
- *Hicks, J. F., Reading B.
- *Jones, H. F., Swansea B.
- *Lawson, J. A., South Western Electricity Board (Bristol Sub-area).
- *Loftus, F., Bolton B.
- Manning, R. H., Whitchurch U.D.C.
- *Mould, M. C., Amersham R.D.C.
- *Muscroft-Jakobsen, E. W., Nottinghamshire C.C.
- *Pasco, E. G., Harlow Development Corporation.
- *Pauley, E. F., South Cambridgeshire R.D.C.
- *Pitchers, K. W., Bradford C.B.
- Price, B. J., Bedworth U.D.C.
- Roberts, C., Swansea B.
- *Saunders, P. J., Royal Tunbridge Wells B.
- *Stillier, A. R., Barnes B.
- Stonefrost, M. F., Slough B.
- *Twelvetree, E. A., Ipswich B.
- Watson, J. L., Glasgow.

* Passed Part A at a previous examination.

† Passed Part A in May 1953.

Summary of Results

	Intermediate		Final Part A		Final Part B		Total	
	No.	per cent	No.	per cent	No.	per cent	No.	per cent
Passed	101	26	118	29	32	32	251	28
Failed	294	74	284	71	69	68	647	72
Total	395	100	402	100	101	100	898	100

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CONTENTS

Leading Articles	<i>Page</i>
Charitable Trust Accounts	121
Gifts <i>Inter Vivos</i> : Valuation for Estate Duty	123
Special Articles	
Tax Free Maintenance Orders	
by <i>T. J. Sophian</i>	124
Public Examination of Directors in Winding-up	
by <i>W. H. D. Winder, M.A., LL.M.</i>	127
Australasian Commentary - XIII	
by <i>S. R. Broton, LL.B., F.C.A.(Aust.)</i>	129
Lecture	
Early Accounts of the University of Oxford	
by <i>I. G. Philip, of the Bodleian Library, Oxford</i>	131
Weekly Notes	135
Finance and Commerce	
Courtaulds Ltd - Money Market	137
Correspondence	
Accounting for Inflation - Stock Values - Tax Relief: Adopted Children - Unqualified Accountants - Cheaper Litigation - Medium Practices: Fees	139
Cricket Match	
Chartered Accountants v. Law Society	142
Notes and Notices	
Personal-Professional Notes - Obituary - In Parliament - Double Taxation: Greece - The Scottish Council - Special Commissioners of Income Tax - Incorporated Accountants' Hull and District Society - Incorporated Accountants' Newcastle upon Tyne and District Society - Prevention of Fraud (Investments) Act, 1939 - The Association of Certified and Corporate Accountants - Chartered Accountants' Hockey Club - Seventy-five Years Ago	142
Accountants' Crossword	
Compiled by <i>Kenneth Trickett, A.S.A.A.</i>	144
The Institute of Chartered Accountants in England and Wales	
Results of Examinations held in May 1953	145

CHARITABLE TRUST ACCOUNTS

THE Committee on the Law and Practice relating to Charitable Trusts, whose report¹ was the subject of a leading article in our issue of January 3rd, recommended among other things that the obligation on charities to submit annual accounts should be enforced and that the accounts should be audited by a professionally qualified auditor. There are at least 80,000 non-educational charitable trusts, but in 1951 less than 28,000 of them submitted accounts to the Charity Commissioners and most of the accounts were not professionally audited. The recommendation came under heavy fire in the House of Lords on Wednesday of last week, when VISCOUNT SAMUEL initiated a debate on the committee's report.

The ARCHBISHOP OF CANTERBURY doubted whether every trust should be encouraged to submit to professional audit 'with all the considerable expense that would be involved'. VISCOUNT SIMON did not think it could have been appreciated by the committee to what sort of bodies this requirement would apply. He instanced a small Nonconformist church in a country district, one of its respected members being treasurer of its modest funds. Penalties for not producing professionally audited accounts might deter public-spirited persons from accepting trusteeships at all. He was supported by LORD RENNELL who pointed out that exempt private companies are not required to have qualified auditors. After mentioning Nonconformist churches, he continued:

'Certain other small local funds are obviously too small ever to afford any form of audit by a chartered accountant or anybody else, and it is neither fair nor reasonable to require them to pay a fee which, to any professional person, cannot very well be less than £1 per year, out of an income which may be only a few pounds.'

To put the matter into perspective, it may be helpful to review the present law which applies, and which has applied for the past hundred years. The Charitable Trusts Act, 1853, as amended by the Charitable Trusts Amendment Act, 1855, gives to the Charity Commissioners extremely wide powers to require, from trustees of charities, information of the most detailed kind. Section 44 of the latter Act provides among other things that the trustees of every charity shall make up the following accounts on or before March 25th, in each year:

- (1) An account of the gross income arising from the endowment, or which ought to have arisen therefrom during the year ending on December 31st, immediately preceding;
- (2) An account of all balances in hand at the commencement

¹ Cmd. 8710. H.M.S.O. 6s 6d net.

of the year, and of all moneys received during the same year on account of the charity;

(3) An account for the same period of all payments;

(4) An account of all moneys owing to or from the charity as far as conveniently may be.

These accounts must be certified by one or more trustees 'and shall be audited by the auditor of the charity if any'. The trustees must send a copy within fourteen days to the Charity Commissioners. Section 45 empowers the Charity Commissioners to lay down the forms with which the compulsory accounts must comply. No specific penalty for non-compliance is laid down, but persistent refusal would render trustees liable to committal to prison for contempt of court.

The statistics of accounts rendered under these provisions are eloquent of the fact that the provisions are not strictly enforced. In the last ten years the Charity Commissioners have made only six requisitions for the production of accounts. One reason is that the Charity Commissioners have not sufficient staff to examine all the accounts; another reason is that proceedings for committal are expensive and slow. Nevertheless, the duty to submit accounts and the liability for default are already in existence, and it is open to the Commissioners to make such searching inquiries that the trustees required to answer them would probably be compelled to engage professional assistance, if they had not already done so.

What the committee's recommendation really amounts to then is not the creation of a new burden, but a switching of the existing burden from the Charity Commissioners, i.e. from the general body of taxpayers, to the charities themselves. Bearing in mind the very considerable tax concessions which charities already enjoy, again at the expense of the general body of taxpayers, the burden of professionally audited accounts does not seem to be a very onerous one.

The historical development of the legal definition of charitable purposes has resulted in large numbers of charities enjoying exemption from income-tax in respect of income applicable to purposes which do not commend themselves to

the sixteenth century for apprenticing boys in a certain neighbourhood to local trades. The supply of beneficiaries having dried up, a local farmer suggested to the trustees that they should pay the fees of apprenticing his son to himself to learn farming. LORD BEVERIDGE said that there was nothing to prevent foolish trusts from being created even now, which would fall into the legal definition of charity.

The recommendation as to audited accounts does not in any case apply to what the committee calls 'plain charities', that is, charities which rely entirely on subscriptions and donations which are spent substantially as they come in, without ever being invested. These charities have always enjoyed exemption from the requirements of the Charitable Trusts Acts, although there has recently been increasing control of a small selection of them, such as war charities and charities for the blind.

Coupled with the recommendation on accounts is another one for the registration of all charities (other than 'plain charities') both at the office of the Charity Commission (or the Ministry of Education) and in the office of the local authority in whose area the charity operates. This is intended to assist would-be beneficiaries, the voluntary workers who act for them, and would-be donors, to discover suitable charities for their needs or desires. Audited accounts under the first recommendation would be submitted to the Charity Commission (or the Ministry of Education) in triplicate so that a copy could be sent on to the local authority concerned, where it would be open to inspection along with the register of the charities themselves. This requirement, combined with professional audit, would make official annual scrutiny unnecessary, in the opinion of the committee.

As LORD NATHAN pointed out, a charitable trust is essentially a public trust, over which the beneficiaries are unable to exercise a close supervision. The obligations proposed to be laid upon charitable trusts are no heavier than those laid on companies, private as well as public, friendly societies (no matter how small), and on industrial

wife, but there was no evidence that he had deducted tax, or that he was in receipt of any income which had suffered United Kingdom tax, nor did he render to the Inland Revenue any account of the payments made to the wife of tax deducted therefrom.

The Revenue sought to assess the wife to tax on the basis that the payments to her were untaxed income in her hands. The Court, however, held that the proper inference on the facts was that the husband had intended and had purported to deduct tax from the payments and that, as the wife could not sue the husband for the balance of the payments on the footing that the sums received by her were gross sums, and as there was no requirement that a payer should produce a receipt showing that tax had been paid in order to establish that there had been a deduction of tax under Rule 21, the wife was to be treated as having received the sums in question as net sums after deduction of tax so that she had borne the tax and could not be assessed again in respect thereof.

The fact that the husband was abroad did not alter the position, since the income was English income of the wife, who was resident in the United Kingdom, and the husband had in his hands the amount of the tax which he had deducted under the authority of the statute, as collector for the Crown.

But, on the other hand, the Court agreed that if the wife was to be treated, as she was not, as having received a sum of untaxed income, she would be directly assessable, notwithstanding that the Crown enjoyed the right of recovering the tax from the payer, who ought to have deducted, but failed to deduct, the tax, these rights being derived from Section 26 (1) of the Finance Act, 1927.

Scheme of Collection

The scheme of collection of tax, where annual sums are payable, has been clearly summarized by Viscount Simon in *Allchin v. Coulthard* ([1943] 25 T.C. 460) where he said:

'The three heads under which the existing scheme of collection of income-tax embodied in Rules 19 and 21 may be stated are as follows:

'(a) A person liable to pay any yearly interest of money, annuity or any other annual payment to a recipient is not entitled to deduct this payment in arriving at his profits or gains to be assessed and charged with income-tax. If the amount is payable and paid out of his profits or gains, he is assessed on a sum which includes such payments, while the recipient is not directly assessed in respect of

the amount at all. Consequently, the Crown gets from the payer both the tax at the standard rate which would otherwise be due from the recipient of the annual payment and the tax due from himself in respect of what is left of his profits and gains after the payment is made.

'(b) If the annual payment is payable and paid out of his profits and gains, the payer is *entitled* to deduct from the payment he makes to the recipient income-tax at the current rate, and the recipient is bound to allow the deduction upon receipt of the residue and to treat the payer as acquitted of liability to him in respect of the amount thus deducted. By this means, the payer recoups himself for the tax which he has paid or will pay on the annual payment.

'(c) If and in so far as the annual payment is not payable and paid out of profits or gains brought into charge, the person making the payment is *bound* to deduct from it income-tax at the current rate and to account to the Crown for the amount deducted. In effect, the payer in such a case acts as collector for the Crown of the tax due from the recipient. The requirement that the recipient must allow the deduction and treat the payer as acquitted of liability in respect of this amount is not repeated in Rule 21 but must be implied.'

Rights of Crown against Payer and Payee

Returning now once again to the case of *Stokes v. Bennett*, it is clear that the Crown can proceed for the recovery of tax as against the payee, who has received the gross sum of the annuity without any deduction of tax therefrom. See *Glamorgan, Q. S. v. Wilson* ([1910] 5 T.C. 537). If, therefore, the wife had received a gross sum of £22, which in that case would only have been part of the full gross sum of £44, since she was entitled to £22 'free of tax', she would have been assessable to tax thereon. But the Court came to the conclusion that the wife could not be regarded as having received a gross payment.

On this aspect of the matter, the Crown, in effect, sought to argue, *inter alia*, that every payment to an annuitant must be presumed to have been received gross, unless it can be shown that tax has been accounted for to the Revenue; but the Court pointed out it was not obligatory on the recipient to produce a receipt of payment of the tax from the Commissioners in order to entitle him to contend that tax had been deducted. For this and other reasons the Court held that the sums received by the wife were not gross sums. Had the husband been resident in the United Kingdom the Crown, in the circumstances, could not have recovered the tax from the wife.

Effect of Residence Abroad

Nor in the view of the Court did the fact that the husband was resident abroad affect the wife's position *vis-à-vis* the Revenue. Where an order for payment free of tax is made against a person who is resident abroad, such person, even though he may not have any income which is liable to United Kingdom tax, must, it seems, in order to comply with the order, remit not only the net sum but also the appropriate tax. *Shearn v. Shearn* (46 T.L.R. 652), a case which apparently was not referred to in *Stokes v. Bennett*.

The Crown in *Stokes v. Bennett*, relying on *Whitney v. C.I.R.* ([1926] 4 A.T.C. 551; 10 T.C. 88) (where it was pointed out that the Income Tax Acts do not purport to tax income which is not derived from property in the United Kingdom nor is income received by a resident in the United Kingdom) sought to argue that Rule 21, which deals with deductions of tax where the payment is not made out of profits or gains brought into charge, could not apply, since otherwise its application would result in the taxation of a person wholly outside the scope and ambit of the Income Tax Acts.

But that argument overlooked the fact that the payer, though resident abroad, was, notwithstanding, in the position of a collector of tax for the Crown and he was bound to account for the tax to the Crown. In such a case an assessment could be made upon the payer, directly in his own name, at his address abroad, according to *Whitney's* case, although the Crown might be unable to enforce its claim abroad in a foreign court, which would decline to assist in the enforcement of the revenue laws of a country which was 'foreign' to it.

The husband, therefore, was to be regarded as having deducted tax from the payments and to be holding the tax as collector and agent for the Crown. And tax having been already deducted, the recipient of the payment less such tax could not be liable for the tax to the Crown, whose remedy, if any, must solely be against the person making the payment.

Deduction of Tax against Arrears

In conclusion, it might be mentioned in passing that the right of deduction of tax must be exercised when making the payment, and failure to make the deduction at the time will bar the payer from recovering the tax subsequently from the payee. (*Ord v. Ord* ([1923] 2 K.B. 432); *Hemsworth v. Hemsworth* ([1946] K.B. 431; 2 All E.R. 117); *Johnson v. Johnson* ([1946] 25 A.T.C. 33).

Where, however, the payments have been

continuously in arrear, tax has been held to be deductible from the payment made on account of the arrears, at the respective rates of tax in force at the dates when the payments should have been made. (*Taylor v. Taylor* ([1938] 16 A.T.C. 48); *Wallis v. Wallis* ([1941] 2 All E.R. 291).)

In *Taylor v. Taylor* weekly sums were payable under a separation agreement and had been paid in full during the earlier years, without deduction of tax but were in arrear during the later years.

It was held that the husband was no longer entitled to deduct tax in respect of the earlier years but that as regards the later years, since he had not made the payment in full for any such year and a residue remained payable in respect of those years, he was entitled on making payment of such residue to deduct therefrom the appropriate tax.

This case therefore appears to have decided that where payment in full has been made for any year (i.e. an annuity year and not a financial year, it seems) the right to recover from the payee the tax that ought to have been deducted is lost; but on the other hand, where payment has been made in full for part of any such year, it is still open to the payer to adjust the matter when making payments for the balance of such year, and to retain out of such subsequent payments, not only the tax deductible from the payments made for the remainder of such year, but also the tax which was not deducted from the earlier payments made in that year.

But in order to exercise the right of deduction, the payer making the payment or part-payment must make a calculation in order to ascertain the amount of the deduction and of the residue and he must then notify the payee of the deduction and pay the residue. As Denning, L.J., pointed out in *Hemsworth v. Hemsworth* ([1946] 2 All E.R. 118):

'Unless such notification is made, the person to whom the payment is made has no information on which to allow such deduction and cannot be called on to allow it, and unless the person paying had made such a calculation he is not acquitted and discharged of so much money as is represented by the deduction, nor has he paid the residue. If the person pays without any such notification it must be taken to be a payment made without deduction and to be a discharge only in respect of the amount actually paid; and when the creditor sues for the balance which remains due over and above the sums actually paid, the debtor, when he comes to pay that balance, is entitled to deduct tax on that balance and pay the residue. That right only arises on payment, but *Taylor v. Taylor* shows that judgment should be entered only for the residue.'

PUBLIC EXAMINATION OF DIRECTORS IN WINDING-UP

by W. H. D. WINDER, M.A., LL.M.

WHEN the Courts were first given the power to order the public examination of a director in a winding-up by the Court, the judges fully appreciated the seriousness of this procedure and proceeded to construe this power strictly, insisting on a proper observance of all the preliminary statutory formalities as well as of the ordinary principles of justice. This power was first given under the provisions of the Companies (Winding-up) Act, 1890, and is now contained in Section 270 of the Companies Act, 1948, the procedure preliminary to the exercise of the power being set out in Section 236. In 1892 Lord Justice Lindley, after pointing out that not a private but a public examination was involved in which any creditor or contributory might take part, said that it was therefore a very serious matter, and continued:

'It is all very well to say that it does not hurt a man to be examined; but we know perfectly well to what length these examinations go, and it is a very serious matter indeed to be examined under this section' (*In re Great Kruger Gold Mining Co Ltd* ([1892] 3 Ch.D. 307)).

In the recent case of *In re Campbell Coverings Ltd* ([1953] 2 W.L.R. 1135) the Court of Appeal defeated an attempt by the Official Receiver to use these stringent powers in a voluntary winding-up in the same way as they can be prayed in aid in a winding-up by the Court.

Before the implications of this recent ruling are considered it may be useful to glance at some of the conditions which must be fulfilled before a public examination can take place in a winding-up by the Court.

Procedure in Winding-up by Court

It is well known that in a case where a winding-up order is made, the Official Receiver is required to make a preliminary report and may also, if he thinks fit, make a further report stating whether in his opinion any fraud has been committed by any person in the promotion or formation of the company or by any officer of the company. If such a further report is made to the Court then the Court has certain powers, including the power to order public examination of the persons implicated in the further report. This preliminary procedure is essential and the Courts have insisted on its strict observance. A director or

other person cannot be hurried into the witness-box to be publicly examined without some kind of prima facie case of suspicion being presented in an official document.

In the *Kruger Co* case, the Court held that the further report was too vague to justify a public examination and the vagueness of the report could not be remedied by a mere oral statement of what was supposed to have been said at one of the preliminary stages of the winding-up. It was laid down that in order to give the Court the necessary jurisdiction the least that was required was that there should be a report upon the responsibility of the Official Receiver, that in his opinion some fraud had been committed, and that the persons whom it was proposed to examine answered the description in the Act, that is, were officers of the company or others specified.

'Anything short of that would be, I think, to open the door to a course of action such as would make an English judge shudder.'

These are the forthright words of Lord Justice Lindley and he continued:

'Any other construction would leave it open to the Court, upon mere information, without any opportunity of testing it, without any power of holding the Official Receiver responsible for it, to make an order that X., Y. and Z. should be publicly examined. So to construe the Act would, as it appears to me, be contrary to every principle of justice'.

His lordship thought that if the Court allowed the order for public examination to stand, the Court would

'be opening the door to great oppression upon innocent people'.

He did not mean to say for a moment that the Official Receiver would do otherwise than what he thought right and still less would the judges, but the power given by Parliament was a very stringent power and

'required to be construed and limited according to those principles of justice which underlie everything in this country'.

Legal Safeguards

Earlier in his judgment, Lord Justice Lindley had remarked that if one were to look at the statutory provisions alone, but bearing in mind those principles which underlie the administration

of justice everywhere in England; one would suppose that there would be some machinery for ascertaining in the presence of the person to be examined whether he was such a person as is referred to in the statute and one would suppose that this question would be tried upon notice to the person who had to be examined. But he agreed that when we come to think it out, and see what such a conclusion involves, we see that it would render the statutory provisions almost unworkable, because if you are to give a person notice that it is proposed to have him examined on the ground that he has taken part in the promotion or formation of the company, or has been a director or other officer of the company, we might have a decision by the judge, an appeal to the Court of Appeal, and finally an appeal to the House of Lords, upon the question whether he is liable to examination; long before the examination could be obtained the delay would render the examination practically useless. An interpretation of the Act which led to such inconvenient consequences could not be correct.

As the same judge observed on a later occasion, the provision for public examination

'is one of the most beneficial to be found in the whole of the Companies Acts, and it is so beneficial that attempts were made at first to stretch it to an extent which was hardly just to the person who had to undergo the ordeal of a public examination'. (*Re Civil, Naval & Military Out-fitters* ([1899] 1 Ch. 230).)

It has been made clear that the Official Receiver need not give his opinion that fraud has been committed in the sense that he levels a definite accusation at a named person but he must show in his report, by his account of the facts, that fraud has probably been committed. His facts must suggest it, expressly or impliedly.

'It is not necessary for the Official Receiver to draw an indictment against the person to be examined' (*In re Trust & Investment Corporation of South Africa* ([1892] 3 Ch. 332)).

But, as Lord Halsbury ruled in *Ex parte Barnes* ([1896] A.C. 146), it is not enough that there is a general finding that fraud must have existed somewhere, which would mean nothing. There must be an individual person pointed to and in respect of whom all the different provisions for his protection, as well as for his being made an example of, become perfectly reasonable. In the event of there being no fraud suggested in the report, or in the event of there being no individual pointed out as being suggested to be guilty of fraud, the Court has no jurisdiction to make an order for a public examination. •

The report must show facts on which the suggestion of fraud is based. It is not sufficient for the Official Receiver to suggest fraud has been committed by a named person without also setting out the facts on which that suggestion is based. According to one judge,

'the Official Receiver is regarded by the legislature as an officer in a high position, especially competent to form an opinion on matters of this kind. He is somewhat in the position of a magistrate in London who has to consider whether he will commit persons for trial, and all that the Court has to see is that the Official Receiver states matters showing that he can reasonably come to the conclusion that there was fraud on the part of the particular person against whom his report suggests it' (Mr Justice Wright, 1899 1 Ch. 225).

Examination in Voluntary Winding-up

In the case of a voluntary winding-up there is a statutory provision for a report by the liquidator to the Director of Public Prosecutions if it appears to the liquidator that any past or present officer, or any member of the company, has been guilty of any offence in relation to the company for which he is criminally liable. Where such a report is made the Board of Trade may subsequently apply to the Court for an order conferring on a designated person

'all such powers of investigating the affairs of the company as are provided by the Act in the case of a winding-up by the Court'.

In the recent Court of Appeal case referred to at the beginning of this article this procedure had been adopted, an Assistant Official Receiver attached to the High Court being the person designated to wield the powers provided for. He then reported to the Court that a public examination of one of the former directors of the company was desirable, setting out the grounds of his opinion, and applied to the Court for an order for public examination. In a winding-up by the Court such an order could, of course, have been obtained. Did it follow that it could be obtained in a voluntary winding-up?

The answer given by the Court of Appeal was no. It was held that such an order is not contemplated by the language of subsection (3) of Section 334. The Court construed the Act strictly, as did the judges when the power to order public examination was a novelty introduced by the Act of 1890. The Master of the Rolls declared himself as follows:

'I am compelled to conclude that the language does not contemplate such an order. It is evident from subsection (3) that the Board may apply to

the Court, not for an order that a person is to attend the Court for examination, but for an order conferring on the Board or some person designated by the Board "all such powers of investigating the affairs of the company as are provided by this Act in the case of a winding-up by the Court". It seems to me impossible that under that subsection the Court could invest the Official Receiver with the power on his own motion to conduct a public examination of the person whose conduct had been impugned.

The words used in the Act did give power to compel persons to supply information and to impose penalties if they did not. But the power to set in motion the procedure of public examination was a different matter. The words of the Act did not extend so far and the Court declined to stretch the interpretation of the words actually used.

Alternative Procedure

At the same time the Court did throw out a hint that a public examination in a voluntary winding-up might be achieved by a different route. This is not a binding part of the decision in this case and is contrary to the opinion expressed in the leading text-book on company law (*Buckley on the Companies Act*, twelfth edition, page 568), but an opinion of the Court of Appeal, although only an *obiter dictum*, must necessarily carry weight for practical purposes. The opinion expressed

was that the liquidator or a contributory or creditor might obtain an order for public examination by applying to the Court under Section 307 (1) of the Act. That is the comprehensive section which, on such an application, the Court may

'exercise, as respects the enforcing of calls or any other matter, all or any of the powers which the Court might exercise if the company were being wound-up by the Court'.

It would not follow, however, as the Master of the Rolls pointed out, that the Court would necessarily exercise this particular power unless there were before the Court material which was in substance at any rate equivalent to the material which the Court would require to have in a compulsory winding-up. Indeed, he went on, the contrary seemed to be the right view, and that before the Court would exercise its discretionary power it would require information similar to that which it would have required if the application had been made in the course of a compulsory winding-up. So it seems that on this possible alternative route to a public examination of a director the procedural safeguards described in the first part of this article will apply. It will be appreciated that the use of this possible alternative does not depend on the initiative of the Official Receiver; it requires the application of the liquidator or a contributory or creditor.

AUSTRALASIAN COMMENTARY—XIII

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Principles

REFERRING to those cases where directors are reluctant to provide more information in the accounts than the minimum required by statute, Mr F. E. Trigg, F.C.A.(Aust.) recently urged that where an accepted accounting principle is involved, especially where its application has a material bearing on the accounts, it is necessary for practitioners to hold firmly to their principles and by tactful persuasion try to have them recognized.

For example, he said, an unwillingness to persuade directors to accept the principle of adequate disclosure through fear of losing the audit or losing favour, is a serious matter affecting us all. The individual practitioner would be greatly encouraged if he felt convinced that in taking a firm stand on a principle all other practitioners would do likewise.

Tacitly admitting that there is a weakness in the general professional attitude in this respect, Mr Trigg appealed to members of the conference he was addressing:

'May I ask you to contemplate the effect on the business world if that were traditional, and the tremendous strengthening of the profession's authority that would result?'

(*The Chartered Accountant in Australia*, May.)

Unquoted Shares

The report of the three-man committee appointed by the New Zealand Society of Accountants to study share valuation methods has just been released. It takes up a fifty-nine-page small booklet and represents a very important contribution to professional literature.

Its features are a table of fourteen points for every valuer to consider and a discussion of

five main methods of valuation, viz. asset value, super profits, capitalization of profits, dividend yield and the averaging of the first and third of these methods.

Although the report is concerned with unquoted shares, the investigations of the committee into market operations showed, among other things, that of the companies operating in New Zealand and listed on the Stock Exchange, the market price at the end of August 1952 of 58 per cent of such companies was less than the net asset book value. The committee concluded that since the current market value of the assets of almost all companies is at present substantially above their book value, it could safely be said that the market price of the shares of over 80 per cent of listed companies is below their true asset backing.

Another Case Study

A second case study of the audit procedure in relation to stock on hand appears in the April issue of *The Chartered Accountant in Australia*. Prepared by a member of the Victorian Division of the Australian Chartered Accountants' Research Society, it relates to a major manufacturing company owned and controlled by an overseas corporation.

Internal control and internal audit are featured in this company, and in addition there are the travelling auditors of the shareholder corporation on which coverage there is superimposed the annual audit of the Australian external auditors. The latter placed most emphasis on the study of the inventory manual and an appraisal of the efficiency with which its instructions were carried out.

A complete physical inventory was taken by the company once each year, at the end of May, June or July, allowing time to effect adjustments by the December balance. As few units of finished products were on hand at any particular time the external auditors checked those in detail to the prepared schedules. They observed that materials for the main product in process had been properly issued for the production schedule current at the cut-off point. In all other sections tests were made of quantities and these were recorded for subsequent checking to the inventory records. The complete study sets out concisely a twenty-five-point audit programme.

Terminology

The Australasian Institute of Cost Accountants has just published a bulletin on the terminology of cost accountancy. Prepared under the direction

of the General Council of the Institute by the Divisional Councils in each Australian State, it refers to and defines 136 terms.

A notable point is the decision of General Council to suggest the elimination of the word 'overhead' from the cost accountants' vocabulary and to establish more specific terms which could embrace costs coming within this category. The recommendation is that costs which cannot be allocated directly to the product or service sold should be specifically identified as factory service cost, distribution cost or administration cost.

The only types of standard costs recognized are basic standards and two types of current standards, viz. ideal and expected actual. Four degrees of plant capacity are defined, viz. maximum (or theoretical), practical, normal and idle capacities.

Later this year the Institute is expected to publish a code of ethics.

Reserves

Mr C. R. Airey, B.E.C., A.A.S.A., thinks that the solution of the difficulties inherent in modern definitions of reserves and provisions, is to be found in formal definitions rather than in definitions of substance. He argues, for example, that in defining *reserve*, it is not necessary to use language which conveys the full flavour of the concept of a reserve; nor is it necessary to indicate either the purposes for which reserves are set up or the effects of their existence.

On this basis reserves are defined as:

'credit balances which together record the sum of past profits or other surpluses, less such amounts as have been applied against losses, credited to book values of assets, or distributed'.

The author makes the interesting point that all the benefits which a business can derive from a reserve have already been furnished before the reserve is created. Setting up a reserve is purely a negative act—an act of retention, of refusal to pay out funds. (*The Australian Accountant*, May.)

Working Papers

The June issue of *The Accountants' Journal* carries a statement on Accountants' Working Papers approved by the Council of the New Zealand Society of Accountants. This statement was prepared by the Accounting Practice and Procedure Committee and will be published in booklet form. That part dealing with the method of preparation deals mainly with a loose-leaf system of working papers.

EARLY ACCOUNTS OF THE UNIVERSITY OF OXFORD

by I. G. PHILIP, of the Bodleian Library, Oxford.

Manslaughter and Murder

THE history of the finance of the University of Oxford begins with manslaughter and murder. In the winter of 1208-09 an Oxford student killed a woman and disappeared. The Mayor and townsmen of Oxford, intent on justice but failing to find the offender, arrested two or three innocent students who shared his lodging and, with the King's ready permission, hanged them outside the walls.

So began the first of the great conflicts between the University and the town. The University, a training ground for clerics, was defended by the Church; the town's action was supported by King John, who was then engaged in a general and bitter struggle with the Papacy. But the Church proved stronger than the King. Under threat of excommunication the King eventually submitted to the Pope and, after a few years' defiance, the townsmen of Oxford also submitted.

Financial Recompense for the Hanging of Students

In 1214 the Papal Legate in England issued an ordinance in which he imposed terms on the town, terms which included as some recompense for hanging the students, an annual payment of 52s for the use of poor scholars, and the payment of a feast for one hundred of them. This annual payment was the University's first financial endowment and it is an interesting example of the continuity of university history. Shortly after 1214 the Abbot of Eynsham undertook the payment on behalf of the town, and the abbey continued to pay annually up to the dissolution of the monastery in the sixteenth century.

The Crown then took over the obligation and this blood money, as it might be called, is still paid to the University Chest by the Paymaster-General. The sum annually received, now £3 1s 6d, is handed over by the Chest to the Vice-Chancellor of the University for the relief of needy students. This procedure is particularly interesting at present because the Paymaster-General is a Fellow of Wadham College and the Vice-Chancellor is the Warden of Wadham College, but the £3 1s 6d pursues a roundabout course intriguing to accountants and irritating to auditors.

First University Chest

In 1240, Robert Grosseteste, Bishop of Lincoln, directed that this revenue of the University should be paid into a chest to be kept in St Frideswide's Priory and that other gifts should be added thereto. This was the first University Chest. It should be

An address delivered in the Divinity School, Oxford, on July 11th, 1953, during the Summer Course of The Institute of Chartered Accountants in England and Wales.

remembered, however, that this was essentially a loan chest, a sort of academic pawnshop. Money was lent from it to finance needy students who deposited as security some pledge of value – a piece of plate, a garment or a book – which was to be sold at the end of a year if there was no repayment of the loan. This chest at St Frideswide's was followed by many others. During the Middle Ages there were at least twenty such chests kept in the Old Congregation House at St Mary's Church, all of them being charitable foundations essentially for loans to needy students. The older statutes of the University show that many of these chests contained schedules of accounts, but although we have lists of the annually elected guardians of the chests, none of their accounts survive.

Early in the fifteenth century two new chests were made, both known as the Chest of the Five Keys. The first one, established in 1412, was used chiefly to hold university statutes and other documents of value. The second, established in 1427, was reserved for money and plate. The five keys of this chest were kept by the Vice-Chancellor and four elected Masters of Arts, and there were also eight auditors of the accounts of the chest. This Chest of the Five Keys is the direct ancestor of the Chest as we know it today, the central financial organization of the University. The fifteenth-century chest, normally on exhibition in the Ashmolean Museum, was in use until 1668 when it was superseded by a painted iron chest which, in use up to 1756, now adorns the office of the present Secretary of the Chest. So much for the beginnings of the University Chest.¹

Earliest Financial Document, 1357-58

As I have said, none of the early accounts of the Chest survive – none earlier, that is to say, than the sixteenth century. There are, however, two other sets of accounts surviving from the Middle Ages, the earlier of which is a small account book² of expenses incurred by university officials in travelling to London on legal business over a period of three months in 1357-58. This is the earliest financial document in the University archives. The other early accounts³ are more interesting since they consist of a series of fifteen audited account rolls dating from 1464 to 1496. These are the annual accounts of the Proctors, two Masters of Arts annually elected as the official representatives of the University and responsible for its routine administration.

¹ For a fuller description of the early Chests, see C. E. Mallett, *History of the University of Oxford*, I, p. 322, *et seq.*

² Printed in H. E. Salter, *Mediaeval Archives of the University of Oxford*, I, p. 175, *et seq.*

³ *Ibid.*, II, p. 272, *et seq.*

[illegible]

both Vice-Chancellors' and Proctors', were copied into series of account books which were maintained, without any major change, until the late nineteenth century. All this was one result of the Sir John Bennet scandal, an affair which had lengthy reverberations. In the Bodleian Library accounts, the claim against Bennet was carried on the books for a hundred and fifty years, down to 1783. During the whole of that period the accounts contain entries of 'unpaid obligations' which included Bennet's defalcations and the sum of £500 which the library lent to Charles I in 1642.

New Account Books in 1626

Having made his account book for the current accounts, the Registrar, in 1626, received from the chest all the earlier extant account rolls, and copied all these, with the exception of the fifteenth-century Proctors' rolls, into the new account books, so that these books now contain a more or less complete series of accounts from the mid-sixteenth century. These books did not, however, supersede the use of parchment sheets which were still used, and kept

in roll form down to 1727 for the Vice-Chancellor's account and down to 1824 for the Proctors' account.

The transfer to the Registrar and his transcription of all the old account rolls in 1626 was connected with another financial spring-cleaning of the University, for it was in that year that the University found itself gravely in debt; its rents were unpaid and it owed nearly £2,000 to the Bodleian estate. Delegates were appointed to consider what steps could be taken to wipe out these debts, and having adopted various financial expedients, they came to the momentous decision that the

'moneys expended on Dinners at the time of the Vicechancellors and Proctors Accompts may conveniently be spared for a time'.

The University had decided to treat financial matters seriously and with due sobriety, and on that sombre note I conclude this brief survey of its early accounts, a survey which, if it does nothing else, abundantly justifies the existence of trained accountants and of auditors whose acumen and impartiality is not, happily, influenced by the amount of 'moneys expended on dinners'.

WEEKLY NOTES

The Institute's Examinations

A total of 2,260 candidates sat for the examinations of The Institute of Chartered Accountants in England and Wales held last May; of these, 1,082 were successful and 1,178 failed to satisfy the examiners.

There were 912 candidates for the Final, of whom 429 (47 per cent) passed, and 483 failed; in the November 1952 examination 46 per cent passed. The First Certificate of Merit, the Institute Prize, the Walter Knox Scholarship, and the Plender Prize for the English Law (Part II) paper, were awarded to Mr Dudley Lawrence Range, of London. The Second Certificate of Merit was awarded to Mr Peter Sergeant, of Woking, and Mr Alexander Victor John More, of London; Mr Sergeant also gained the W. B. Peat Medal and Prize and the Plender Prize for the English Law (Part I) paper. The Fourth Certificate of Merit was won by Mr John Crossley Steare, of Manchester, and Mr George Carter of Leeds; Mr Steare being awarded the Plender Prizes for the Auditing and General Financial Knowledge and Cost Accounting papers.

In the Intermediate there were 1,151 candidates, of whom 571 (49.6 per cent) passed and 580 failed; passes in the November 1952 examination were 46 per cent. The First Certificate of Merit, the Institute Prize, the Stephens Prize and, with one other, the Frederick Whinney Prize, were won by Mr Peter Mendelssohn, of London; the Second Certificate of Merit, and, together with Mr Peter Mendelssohn, the Frederick Whinney Prize, were won by Mr Colin Prichard David, of Cardiff; the Third Certificate of Merit was won by Mr Iain Robert McNeil, of Brighton; the Fourth Certificate of Merit and the

Plender Prize for the Taxation and Cost Accounting paper by Mr Max Henry Turner, of Ipswich; and the Fifth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Partnership) paper by Mr Robert Brian Booth, of Bradford.

In the Preliminary, a total of 197 candidates sat, of whom 82 (41.6 per cent) passed and 115 failed. In the November 1952 examination 35 per cent passed.

The full list of successful candidates in all three examinations, together with a summary of the results, appears elsewhere in this issue.

Base Stock Method Rejected

The base stock method of valuing fixed process stock, and spare process stock, by a cotton spinning company, has been held by Mr Justice Vaisey not to be appropriate for the purpose of computing profit for tax purposes. He allowed the Crown's appeal from the Special Commissioners' decision on an appeal brought by Broadstone Mills Ltd.

According to the *Financial Times* of July 25th, the Crown's contention was that the base stock system of valuation which had been employed, treated the fixed process stock as part of the company's fixed capital and placed on part of the spare process stock an arbitrary value lower than cost. The Crown contended that all trading stocks should be valued at cost or market, whichever was the lower.

The Special Commissioners had found that the method was recognized in the cotton spinning trade and was in accordance with sound commercial practice. His Lordship held that the Commissioners' finding was erroneous in its implication that the base stock system was therefore appropriate and acceptable

for income-tax purposes. No part of the stock should be either treated as a fixed asset or brought into account at a mere arbitrary figure for tax purposes.

Taxpayer making a Profit out of Himself

The principle that a taxpayer cannot make a taxable profit out of himself received a severe jolt in the Chancery Division last week, in *Sharkey v. Wernher*.¹

Lady Wernher carried on a stud farm, admittedly assessable under Case I of Schedule D, and also had racing stables which were admittedly purely recreational. Horses were transferred from the stud farm to the racing stables and the cost of breeding and rearing them was debited in the stud farm accounts. The question arose as to the amount to be credited to those accounts when a horse was transferred to the racing stables.

The Crown contended that the market value, which was considerably higher than cost, should be credited. The Special Commissioners held on appeal that only the cost should be credited, so that the stud farm showed neither profit nor loss in respect of horses transferred to Lady Wernher's racing stables.

Applying the decision in *Watson Bros v. Hornby* ([1942] 24 T.C. 506; 21 A.T.C. 279), Mr Justice Vaisey allowed the Crown's appeal. Although the principle that no man could trade with himself or make a taxable profit by dealing with himself was unexceptionable in itself, His Lordship thought that the Legislature had made some inroads into it by making such dichotomy inevitable when it split the taxpayer into two parts, putting one part in one Schedule and one in another.

'Discovery' and Additional Assessments

The now numerous authorities on the meaning of the word 'discovers' in Section 125 of the Income Tax Act, 1918, has been increased by the decision in *Beatty v. C.I.R.* (*The Times*, July 25th, 1953). In that case the Crown made assessments on Lord Beatty under Section 18 of the Finance Act, 1936, which, for the purpose of the decision, were taken to be 'additional' assessments. It was contended on behalf of Lord Beatty that the assessments were made on the suspicion (erroneous in point of fact) that there had been transfers by him or by his wife. The liability was found to exist for other reasons of law but Lord Beatty argued that there had been no 'discovery' within Section 125 when the assessments were made. Rejecting what he called 'this most technical of all technical points', Mr Justice Vaisey asked why it should be less of a discovery when the omission to charge was of some different kind to the supposed omission. He likened the Inland Revenue to a man who found, or discovered, a diamond on his land but at first thought it to be a piece of glass. He had none the less discovered a diamond on the day on which he found the supposed piece of glass. The fact that the full comprehension of the facts was subsequent to the raising of the additional assessments

did not mean there was no discovery prior to raising the assessments.

Milk Utilization Productivity Report

In contrast to most recent productivity reports, which have been severely technical in character, that, published on Monday, of the team which visited the United States last spring to study the utilization of milk contains a full and informative chapter on the accounting side of the industry in America.²

After describing the various methods and techniques encountered, under such headings as office management, office layout and equipment, statistics, financial and cost accounting and budgetary control, the team summarizes the six main conclusions derived from its tour of inspection. The first is the greater degree of planning and control of capital expenditure in America. The second is the importance of having a controller, particularly under conditions of free enterprise, constantly to gauge the profitability of the concern. The third is the desirability of a wider circulation of cost information among firms engaged in the same industry. The team notes as its fourth point that more attention is paid in America to the design of offices and to the working conditions of employees, both with a view to increasing the general efficiency of the business. The fuller use made of mechanical aids is next stressed and, lastly, it is stated that while elaborate cost systems exist only in the largest organizations in the United States, all managements were fully aware of the necessity for the prompt ascertainment and control of costs.

Provision for Old Age: A New Committee

The Chancellor of the Exchequer announced in the House of Commons on Monday, the names of the members of the new committee which has been set up to review the economic and financial problems involved in providing for old age.

The committee is under the chairmanship of Sir Thomas Phillips and the members are: Professor A. K. Cairncross, C.M.G., Professor of Applied Economics, Glasgow University; Mr J. H. Gunlake, C.B.E., F.I.A., F.S.S., F.I.S., Consulting Actuary; Sir John Imrie, C.B.E., J.P., M.A., B.COM., F.S.A.A., F.I.M.T.A., until 1951, City Chamberlain of Edinburgh; Mr F. A. A. Menzler, C.B.E., B.SC., F.I.A., A.S.A., F.S.S., F.I.S., M.INST.I., Chief Development and Research Officer, London Transport Executive, and a Past President of The Institute of Actuaries; Dr Janet Vaughan, O.B.E., D.M., F.R.C.P., Principal of Somerville College, Oxford; and the following members nominated by the Trades Union Congress and the British Employers' Confederation: Mr C. Bartlett and Mr A. McAndrews, members of the General Council of the Trades Union Congress; Sir Cuthbert Clegg, T.D., J.P., Chairman of the Cotton Spinners and Manufacturers' Association; and Mr F. J. C. Honey, F.I.A., Joint Secretary of the British Employers' Confederation.

¹ *The Times*, July 25th, 1953

² Obtainable (5s post free, excluding air mail) from the British Productivity Council, 21 Tothill Street, SW1.

FINANCE AND COMMERCE

With the Korean truce long since discounted as a market factor the Stock Exchange tone has shown little change. Conditions remain firm but business is extremely selective. There is, however, a persistent volume of small support.

Courtaulds Accounts

Many companies now present accounts which, with accompanying notes and schedules, are so extensive that it is virtually impossible to reproduce them in full in one issue of *The Accountant*. In such cases we usually make a partial reprint. Some, however, contain so much of interest to the profession as to make it well worth while spreading the reprint over more than one issue. This we do in the case of Courtaulds Ltd, the first instalment of the reprint in full of the accounts for the year to March 31st last being given this week.

The main feature of these accounts is the revision of the depreciation basis as a result of which the provision under this head has been reduced substantially and adjustments made to reserves. The changes which have been made must inevitably give a new look to previous accounts, but it is impossible of course, to be retrospective when adopting a new accounting basis. The adjustments can only be made with the adoption of the fresh policy.

New Depreciation Basis

The change in the depreciation basis follows from a review by the company's technical officers during the year of the estimated lives of the fixed assets. On these findings, the board decided to reduce the annual depreciation provisions. Similar adjustments relating to a subsidiary in the charge for depreciation for the year 1952-53 were made in arriving at the group balance. The effect has been that approximately £1,300,000 less has been provided for depreciation than would have been the case using the previous basis.

The next step was to adjust the reserves, an aggregate amount of £6,654,954 in the case of the company and £9,366,423 in the case of the group being transferred out of the accumulated provision for depreciation to the reserve towards the increased cost of replacement of fixed assets. This latter reserve, it will be noted, is also further substantially augmented by appropriation from the year's profits.

Sir John Hanbury-Williams, the chairman, says in his statement that the change in depreciation policy reflects, in the board's judgment, a more realistic view of the amounts necessary as annual charges for depreciation. The transfer of the accumulated surplus depreciation to the reserve towards the increased cost of replacement of fixed assets, he states, goes some way to making up the very large amount which the board consider necessary to meet replacement of plant and machinery.

Fixed Assets

The chairman goes on to refer to the changes in the fixed asset figures. After deducting the year's depreciation, fixed assets of parent and group, he points out, have respectively increased by nearly £7½ million and £18½ million.

Of these net increases, over £6½ million and nearly £9½ million respectively are accounted for by the adjustments of the accumulated depreciation provisions of previous periods. The remaining increase of £9 million in the group figures is accounted for by plant expenditures in the United Kingdom, enlargement of the Courtaulds (Canada) factory capacity, the construction of the Canadian factory for the manufacture of transparent cellulose film and above all, expenditure on the new factory in Mobile, Alabama.

Money Market

Raising of the bid to £99 8s 3d and a reduction of some £10 million in applications at £375,590,000, gave the market 55 per cent of its Treasury bill requirements on July 24th and lowered the average rate to £2 6s 11.80d per cent. This week the offer is raised by £10 million to £250 million.

COURTAULDS LIMITED AND SUBSIDIARIES

Schedules to Profit and Loss Account for the year ended March 31st, 1953

Schedule 1 (being items already taken into account in arriving at the figures first stated in the Consolidated Profit and Loss Account)

	1953 £	1952 £
Group Income from:		
Trade Investments (including in 1952 £415,247 arrears received from abroad)	1,585,678	1,758,274
Government Securities and Other Investments	330,527	327,132
Group Expenditure and Charges:		
Provisions for Depreciation (see Note 7) ..	2,504,507	3,184,898
Provisions for Obsolescence	250,000	250,000
Remuneration from all sources of the Directors of Courtaulds Limited for services to Courtaulds Limited and Subsidiary and Associated Companies:		
Fees	17,500	19,214
Other Emoluments	113,626	105,132
Directors' and past Directors' pensions arising from executive appointments ..	22,632	30,494
Auditors' Fees and Expenses	24,032	22,360

Schedule 2

	1953 £	1952 £
Group Charge for Taxation:		
United Kingdom Taxation:		
Profits Tax less Excess Profits Levy recoverable (charge in 1952)	592,377	3,056,383
Income-tax based on profits for the year to March 31st, 1953 (see Note 1)	3,984,378	6,331,186
Taxation abroad (after deducting allowances for accelerated depreciation)	544,697	403,775
	5,121,452	9,791,344
United Kingdom Tax deferred by Initial allowances:		
Transfer from Reserve	292,800	
Transfer to Reserve		502,105
	4,828,652	10,293,449
Add: Amount transferred to Reserve for Tax abroad deferred by accelerated depreciation allowances (See Note 7 (b))	484,158	
TOTAL	£5,312,810	£10,293,449

COURTAULDS LIMITED AND SUBSIDIARIES
Consolidated Profit and Loss Account for the year ended March 31st, 1953 (See Note 1)
 (Schedules to Profit and Loss Account are on page 5, Notes on page 9)¹

	Courtaulds Limited		Group	
	1953	1952	1953	1952
	£	£	£	£
Group Balance from Trading and Investment Income, after taking into account the amounts of income and expenditure and the Charges set out in Schedule 1, but before charging Taxation (see Note 7 as to change in basis of provisions for depreciation)			10,555,068	19,018,402
Deduct: Group Charge and Transfer to Reserve for Taxation, as set out in Schedule 2			5,312,810	10,293,449
Group Balance from Trading etc. after Taxation			5,242,258	8,724,953
Deduct: Interests of Minority Shareholders therein			49,938	191,197
Courtaulds Limited, Interest in Group Balance	5,192,320	8,533,756	5,192,320	8,533,756
Deduct: Amounts retained by Subsidiaries	774,589	2,158,452		
Balance of Profit of Courtaulds Limited for the year	4,417,731	6,375,304		
Add: Balance of profit brought forward from last year	745,366	656,877	1,180,158	1,240,377
Over-provision for taxation in previous periods	273,545	503,359	447,398	620,844
together	£5,436,642	£7,535,540	£6,819,876	£10,394,977
Deduct: Transfers to Provisions and Reserves (see Notes 3 and 4):				
(1) Reserves:				
(a) towards increased cost of replacement of fixed assets	1,500,000	1,912,674	2,829,493	2,371,847
(b) against increased cost of replacement of raw materials and other stocks		2,800,000		2,920,000
(2) Provision for pensions	750,000	450,000	750,000	466,050
(3) Revenue General Reserve				327,982
(4) Capital General Reserve	750,000		272,777	1,256,941
(5) Reserve towards increased cost of replacement of fixed assets (previous periods)			97,500	243,750
(6) Reserve against Government Securities				6,749
	3,000,000	5,162,674	3,949,770	7,587,319
Less: Transfer from Revenue General Reserve			191,415	
	£3,000,000	£5,162,674	£3,758,355	£7,587,319
Leaving an available balance of Profit of	£2,436,642	£2,372,866	£3,061,521	£2,807,658
Deduct: Dividends (less tax) of Courtaulds Limited (see Directors' Report)	1,667,500	1,627,500	1,667,500	1,627,500
Balance carried forward Included in Schedule 7 to the Balance Sheet	£769,142	£745,366	£1,394,021	£1,180,158

BALANCE SHEET OF COURTAULDS LIMITED
and Consolidated Balance Sheet of Courtaulds Limited and Subsidiaries, March 31st, 1953 (see Note 2)
 (Schedules to Balance Sheets are on pages 7 and 8, Notes on page 9)¹

Courtaulds Limited				Group	
1952	1953	£	Reference	1953	1952
£	£		£	£	£
26,364,889	33,759,968		Fixed Assets	52,426,906	33,998,823
21,221,799	21,075,627		Investments in Subsidiaries		
6,861,239	7,976,003		Trade and Other Investments	9,059,938	7,341,487
5,422,431	4,743,681		Government Securities	11,739,313	18,648,966
			Net Current Assets:		
16,802,919	12,439,864		Stocks-in-Trade, Stores, etc.	17,552,112	22,232,311
2,990,892	3,715,539		Debts, Amounts Recoverable and Payments in Advance	6,728,663	5,755,358
			Bank Deposits under Irrevocable Credits for Future		
1,762,923	542,312		Supplies	542,312	1,762,923
2,000,000	3,500,000		Tax Reserve Certificates	3,803,375	2,203,575
3,420,643	5,511,303		Balances at Banks and Cash in Hand	7,493,432	6,449,126
26,977,377	25,709,018		Total Current Assets	36,119,894	38,403,293
9,872,971	7,623,897		Deduct: Current Liabilities, Provisions and Dividends	11,128,030	12,329,711
17,104,406	18,085,121			24,991,864	26,073,582
£76,974,764	£85,640,400		Total Net Tangible Assets at book values	98,218,021	86,062,858
			Deduct: Interests of minority shareholders	1,024,901	1,124,950
			Net Tangible Assets, at book values, relating to the Interests of members of Courtaulds Limited	£97,193,120	£84,937,908
			CAPITAL AND RESERVES		
			Capital Authorized and Issued:		
8,000,000	8,000,000		5 per cent Cumulative Preference Stock	8,000,000	8,000,000
24,000,000	24,000,000		Ordinary Stock	24,000,000	24,000,000
				32,000,000	32,000,000
32,000,000	32,000,000		Capital Reserves	46,971,824	34,725,865
29,675,779	40,002,103		Revenue Reserves	18,221,296	18,212,043
15,298,985	13,638,297				
£76,974,764	£85,640,400		Total Capital and Reserves	£97,193,120	£84,937,908

June 11th, 1953.

J. HANBURY-WILLIAMS }
 P. J. GRATWICK } Directors.

¹ Schedules to profit and loss account are on page 137; notes will be published next week.² Schedules to Balance sheets and notes will be published next week. - Editor.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accounting for Inflation

SIR, — The controversy of historical cost versus replacement values is one that never fails to provoke a pleasantly heated discussion and for this, at least, we must thank Mr Briscoe. There does not seem to be much left of him to answer after Mr Lacey and 'Pettifogger' have finished with him; but a small footnote to the discussion might be ventured.

Mr Nielsen is a perfectionist. He is, of course, quite right. The £ sterling should be a unit of measurement as fixed as the yard; but no one has yet suggested a way by which this can be achieved, short of a complete central control of the whole of our economic life. The world is not without examples that this can be done, though at a cost which we are not yet ready to accept. It may come one day; but in the meanwhile we must just do as best we can with our elastic yard.

We must all surely accept Mr Briscoe's opening paragraph that 'income is what is left over after wealth [or capital] is maintained intact'. To achieve this we must provide for fixed asset replacement (which is a more accurate way of describing depreciation) so we have to set aside sufficient out of profits to replace the asset when its useful life has expired; but in a world of fluctuating values whatever estimate we may make can only be guesswork. We do not know how long the asset will last, or what it will ultimately cost to replace it, or its then modern equivalent. Even the methods of calculating depreciation on orthodox lines must be hit and miss; a machine may be written off over twenty years, and then last forty; or it may be obsolete in ten. This is a problem which confronts the accountant, whether he favours the historical or the replacement basis. This unavoidable uncertainty impels the orthodox to cling to historical cost as (to quote 'Pettifogger') an article of Biblical faith. This is surely not good enough. The fact that our estimates must be chancy is no excuse for leaving them on a basis so far divorced from current reality as to be positively misleading.

Surely Mr Briscoe has over-simplified 'cost'. If the cost of any product, in terms of materials, wages and other cash costs, is calculated in terms of the values of the relatively short period in which it is made, then the depreciation incurred — that is to say the cost of the use of plant and buildings — should also be in terms of the same values, and not of some earlier, and quite irrelevant period. If a machine cost £1,000 in 1938, and was expected to last twenty years, and would cost £2,000 to replace in 1950, then surely £100 is a much nearer estimate of the cost of its use in 1950 than £50 (accepting for the moment 'straight line' instead of 'reducing balance'). The difficulties of calculating replacement cost in

this way have, I think, been greatly exaggerated. There can be few managements who are not able to make a reasonable estimate of the probable life of any asset, or of its current replacement cost; or failing this, the trebling of pre-war cost would not, in most cases, be very far out. A depreciation charge (against the cash profits of the year) so calculated must be as near as anyone can be expected to get.

This leaves the problem of arrears of replacement provisions in previous years. If the cost of replacement of an asset goes up, not only should the estimated cost of its use during the year be increased, but provisions made for replacement in previous years become inadequate. This, however, scarcely seems a fair charge against the year's profits, but might more correctly be shown as an appropriation, either of previous accumulated profits, or failing that, of the current year's; but surely the profit and loss account which disregards both current replacement cost and arrears is misleading, and accountants should try to obtain the best estimates they can to cover both eventualities, and to ensure that they are brought to the notice of the business and its shareholders.

The essence of our duty perhaps lies in the profit and loss account rather than the balance sheet. By the foregoing means we can at least present a reasonably accurate account of the results of a year in terms of the average value of the £ in that year, with appropriations to make good previous years, and in so doing fulfil our main duty of preventing an overstatement of real profit. But the balance sheet is a different matter; presentation in terms of a consistent monetary standard — our yard stretched to any given point — can perhaps only be achieved by a complete revaluation each year, which few of us would be prepared to suggest or contemplate. We accept balance sheets now as a mixture of all sorts of different values of the £; let us leave it at that. Although we all accept debtors and creditors in a balance sheet as being nearly precise statements, no one attaches much significance to the figure at which fixed assets stand, unless it is a recent valuation.

There remains the problem of what is to be done in the balance sheet with the replacement provisions in excess of historical cost which we have charged in our profit and loss account. This can perhaps best be answered by creating a replacement reserve, which, as the fixed assets are replaced, can be transferred to capital reserve, which, being added to share capital, simply represents the effects of inflation on the monetary value of the fixed assets; or, if we ever achieve a new stable level of prices, the whole reserve can be similarly transferred when provision has been made for replacement of all pre-inflation assets.

Yours faithfully,
Norwich.

E. HARTLEY.

SIR, - In reply to Mr Quiney's letter appearing in your issue of July 18th, I should like to point out that I said nothing about the Government guaranteeing markets; far from it. The decision to produce or not to produce is the responsibility of the business man - variations in the value of money is not.

Whilst, in a short letter only broad principles can be covered, the following should give an indication of the steps involved:

(a) At a fixed date, the general level of prices, would be ascertained. The number and variety of goods and services brought into the total would be a matter of policy but naturally, the greater and more varied the selection, the more accurate would be the answer. As would be expected, subsidies, purchase tax, etc., would have a profound effect but would not make the task impossible.

(b) The level so ascertained would be the index of the general level of prices, say an index of 100. The level would be ascertained again within a short period, preferably weekly, let us suppose that it has risen to 100.5. Purchasing power would be withdrawn either through flexible taxation or bank credit restriction (the Government would have all control over bank credit, as it has now for all practical purposes). Later, if the index should fall to 99, purchasing power would be increased i.e. greater bank advances or say, a pension bonus, according to policy. The vital thing would be to keep the index at 100.

Should it be suggested that the scheme would be too difficult to administer from a practical point of view, may I mention the Income Tax Act?

It will be noted that this method does not interfere with business directly at all, the business men taking the risks that they should take. In fact, the less Government interference in business the better from the point of view of operating the scheme.

No doubt, over a period of a year or so, particularly at the start, the general level of prices would, in fact, vary, shall we say by as much as it does in one or two days at present?

I should like to emphasize some of the advantages of a stable value for currency.

(1) Savings are encouraged as no loss will be sustained through inflation.

(2) In an expanding economy the index will tend to fall continually, giving the Government a fund for use in social services etc.

(3) Should a government overspend, the extent and effects would be clear; a valuable protection for the public.

(4) Workers could accept mechanization knowing that unemployment (except, perhaps, temporary) would be avoided and that directly or indirectly, they would benefit from the increased production.

(5) Sterling would become of considerable value internationally in view of its stability.

(6) Accounts prepared in the orthodox manner would be correct (for, perhaps, the first time).

Yours faithfully,

Hainault, Ilford, Essex.

A. J. NIELSEN.

Stock Values

SIR, - The account of the discussion on this vital subject published in the issue of July 25th, contains a good deal of most thoughtful and interesting reading. Unfortunately, like most discussions on this all-important subject, theory was permitted to govern the discussion.

Bitter (and uninformed) criticism was levelled at that old warrior 'market-price', as a measurer of stock values. No voice was heard to say that (apart from a lower cost-price) there is no alternative to market-value. Trading profits must so far as is humanly possible be stated in terms of cash. Only a cash profit can be of any use in paying a dividend, paying the Revenue, or being used to re-equip or rehabilitate the company.

The Revenue would be more than startled if they were informed that they could be paid as to 80 per cent of their demand now and the remainder as and when the index of some price structure or other fell or rose a stated number of points. Yet theorists will tell us that profits are to be measured not in cash but in price fluctuations or index values.

Even where the profit is stated in terms of cash it may be some time before it is actually received in this form. Meantime, there may be cash disbursements of profits to be made. The circulating capital will have to be drawn on for this purpose. This is or may be a great risk. If, however, all the items of circulating capital (debtors, bills receivable and trading stocks) are reduced to terms of cash, this risk is reduced to a minimum. Trading stocks must therefore be measured at either cost-price or market-value, the lower of the two. By market-value must obviously be meant the value or price the stocks would fetch if taken on the date of the balance sheet back to the market where purchased in the first place and offered for sale in the quantities and condition in which it exists at date of balance sheet.

Yours faithfully,

E. HARMAN.

London, EC2.

Tax Relief: Adopted Children

SIR, - Our local Inspector has recently asked us to supply a certified copy of an entry in the records of the General Register Office in respect of the adoption of a child by one of our clients.

Anyone who has been unfortunate enough to have wished for children of their own and having been unsuccessful, adopted a child is usually very reluctant to let the world know that the child is adopted or at least wish the world to forget the fact if only for the sake of the child. Legislation has been passed to assist such people and further efforts are being made so that it will be impossible for a member of the general public to discover the fact.

In a London or provincial town Inland Revenue office the number of cases handled known to the staff personally or indirectly must be comparatively small, but in the smaller towns and rural areas it is

highly probable that the staff will know a large proportion of the cases directly or indirectly.

In the circumstances do you not think it is time that the Revenue adopted a more considerate and humane attitude in this matter. Surely it should be sufficient for the Inspector to have the birth certificate which differs from others in no way; we refer, of course, to the shortened form. In any case having completed Form 11-2A the Inspector has all the information to enable him to verify the position.

Yours faithfully,

Torquay.

N. S. F. BLACKWOOD.

[Our correspondent and readers will be interested in the following Parliamentary question and answer which is relevant to this matter:

Mr JANNER asked the Chancellor of the Exchequer whether he is aware that, when parents who have adopted a child are applying for income-tax allowance on Form No. 11-2A, there appear the words, 'Allowance for Adopted Children', and that the names and addresses of the child's natural parents are asked for; and whether he will have the heading and the request for natural parentage deleted from the form.

Mr BOYD-CARPENTER: If, as I assume, the hon. member is referring to the case of a child adopted under the Adoption of Children Acts, the claim for income-tax relief should be made on Form 11-2, the same form as is used where the child is the taxpayer's by birth. This form requests the taxpayer, on the occasion of a first claim in respect of a legally adopted child, to state the name and address of the child's natural parents, if known. As only one income-tax allowance can be given in respect of the same child in a given year, and as both the natural and the adoptive parents have a prima facie claim in the year of adoption, I do not think this question is unreasonable. (*Hansard*, January 29th, 1952, Written Answers, Col. 5) - Editor.]

Unqualified Accountants

SIR, - Recent correspondence in the columns of *The Accountant* appears to reveal an alarming ignorance of the benefits provided and the services performed by secondary bodies of accountants not only to members but also to the public.

My attention was drawn particularly to a statement that the Institute, the Society and the Association provided a means of obtaining a recognized qualification to *all* those who desired to follow the profession of accountant and that all other accountancy bodies were superfluous. The answer to such a surprising assertion is to be found in *The Accountant* dated July 11th, under the heading 'Twenty-Five Years Ago'.

'The average chartered accountant of today has been educated at a cost of £500 to £1,500 (if at a Varsity). He has to pay anything from £100 to £300 for articles, and receives a salary which is nominal or even nil.'

Admittedly, the Association does not insist upon articles but it must be remembered that, prior to the absorption of the Institution of Certified Public Accountants, the status of the Association was not what it is today.

I also noticed a 'suggestion' that members of all the other accountancy bodies had not the learning to obtain one of the recognized qualifications open only to successful examination candidates. Does anyone really believe that all the other bodies of accountants grant membership in exchange for a cheque? Perhaps I may be permitted to refer, once again, to the 'Twenty-Five Years Ago' series of letters. A correspondent of the year 1928 had very definite views on the subject.

'With regard to examinations, I think that if your correspondent had had experience of coaching candidates for the various accountancy examinations, he would admit that the candidates entering for those of the junior bodies cannot be safely trained to a standard lower than that of those taking the examinations of the senior bodies. This is a fact drawn from experience.'

I am at a loss to understand why chartered, incorporated and certified accountants are so jealous of the restricted activities of 'unqualified' competitors. If, as has been suggested, members of the recognized bodies are so superior in education, professional training and experience, what have they to fear?

I am,

Yours faithfully,

UNQUALIFIED
QUALIFIED ACCOUNTANT.

Cheaper Litigation

SIR, - I refer to the leading article in your issue of July 25th. Any steps to reduce the cost of litigation and to expedite the dispatch of business must be welcome to the layman.

Recently I was involved in a case which, after the delay of over a year, was heard in the High Court. Four counsel were engaged; solicitors, managing clerks and their assistants were in Court and there was a mass of documents, many of which were irrelevant. The case, which was a simple one, took some days and the costs on both sides amounted to several hundred pounds.

With the consent of the parties, the matter might have been settled in half an hour by some process such as the hearing before a Master.

Yours faithfully,

F.C.A.

Medium Practices: Fees

SIR, - Mr Sproull's admirable discourse (issue dated July 4th) indicates in cold print what every thoughtful audit clerk has long suspected, that from the shrewd and ruthless employment of two competent clerks it should be possible for a practitioner to obtain for himself annually a cool £2,000 with no undue personal strain.

The competent clerks (who are somehow never quite competent enough to suit his Nibs) would rub along with something around £500 a year, inferiority complexes and ulcers.

ONLOOKER.

INSTITUTE XI WIN CRICKET TROPHY

The Institute XI have had to wait twenty years for the satisfying experience of winning the Silver Challenge Trophy, presented by Mr Lawrence W. Robson, F.C.A., F.C.W.A., for the annual cricket match with the Law Society. A succession of drawn games and victories to their opponents since 1933 have year by year been their sad lot, but now, in Coronation year, the match was won by a well-balanced side that took full advantage of a sticky wicket, which became easier as the day advanced to evening.

The match took place at Wimbledon on July 15th, when the Law Society won the toss and elected to bat. T. M. Sutton-Mattocks and G. F. Oakley opened their innings somewhat sensationally as the latter hit his wicket in the first over of the day when playing a late defensive stroke to a fast rising ball from B. W. Gate who started the bowling for the Institute.

A. L. Wright then came to the wicket, and batted steadily with his partner. The luncheon interval arrived with a score of fifty for the loss of only one wicket; after lunch, however, the wicket began to take more spin and the collapse of the Law Society batting was due almost entirely to the first-class slow bowling from A. Guthrie. Bowling slow left arm breaks from round the wicket, Guthrie had all the batsmen who faced him in difficulties and, supported by some brilliant catches by D. A. W. Bradley, B. J. A. Lowe in the slip, and A. A. E. Morgan behind the wicket, he finished his afternoon's work with the satisfying analysis of six wickets for thirty-five runs.

The score of ninety-four all out at four o'clock in the afternoon, left the Institute all the time in the world to get the runs required to win.

B. J. A. Lowe and B. D. Barton opened the Institute's innings and disaster came almost immediately as Lowe was well taken by Sutton-Mattocks, fielding at first slip, after scoring only two runs. J. W. H. May then joined Barton and runs began to come rather more freely; but the second wicket fell with the score at twenty-four when Barton was brilliantly taken by Oakley fielding at cover point. May was then joined by A. A. E. Morgan who was taken in the slips from the bowling of R. L. Clarke after he had scored a very

useful fifteen runs. The next man in, T. B. Stafford, struck out at the bowling straight away and victory came at five-thirty in the afternoon with only three Institute wickets down.

So at long last the Institute defeated their rivals of the legal profession and the Law Society captain, T. L. Outhwaite, performed the ceremony of handing over the Challenge Trophy to L. W. Robson, captain of the Institute XI.

The scores were:

THE LAW SOCIETY

T. M. Sutton-Mattocks, c. Lowe, b. Guthrie	..	40
G. F. Oakley, hit wicket, b. Gate	..	0
A. L. Wright, c. Barton, b. Ford	..	16
R. R. Maddison, c. Bradley, b. Guthrie	..	8
C. C. Russell-Vick, c. Bradley, b. Guthrie	..	9
R. L. Clarke, c. Morgan, b. Guthrie	..	0
S. Mundy, c. Morgan, b. May	..	2
W. O. Nicholls, c. Bradley, b. Guthrie	..	0
G. M. Lewis, b. May	..	2
H. Malden, not out	..	7
T. L. Outhwaite, c. Lowe, b. Guthrie	..	6
Extras	..	4
TOTAL	..	94

Bowling: B. W. Gate 4-0-13-1; D. A. W. Bradley 3-1-3-0; A. Guthrie 14-3-36-6; G. Ford 8-0-20-1; J. W. H. May 6-2-16-2.

THE CHARTERED ACCOUNTANTS

B. J. A. Lowe, c. Sutton-Mattocks, b. Clarke	..	2
B. D. Barton, c. Oakley, b. Maddison	..	10
J. W. H. May, not out	..	68
A. A. E. Morgan, c. Sutton-Mattocks, b. Clarke	..	15
T. B. Stafford, not out	..	5
Extras	..	2
TOTAL (3 wks.)	..	102

D. A. W. Bradley, M. G. Varcoe, G. Ford, B. W. Gate, A. Guthrie, L. W. Robson (Captain), did not bat.
Bowling: R. L. Clarke 13-3-39-2; W. O. Nicholls 7-2-17-0; R. R. Maddison 5-1-17-1; T. L. Outhwaite 5-1-27-0.

NOTES AND NOTICES

Personal

MESSRS J. & A. W. SULLY & Co, Chartered Accountants, announce the resignation from their Wells practice of MESSRS E. R. GREGORY, P. R. JOHNS and J. B. CHILCOTT, and the admission to that practice of Mr F. L. K. CROWE, who is already a partner at Weston-super-Mare, and at Bristol and London. The Wells partnership is now composed of MESSRS A. V. SULLY, F. G. F. DRAKE, F. L. K. CROWE and W. B. WEVELL. MESSRS E. R. GREGORY, P. R. JOHNS and J. B. CHILCOTT remain partners in the Bridgwater and South Molton practices of the firm.

MESSRS L. & S. HALPERN announce that as from July 20th, they have moved to new offices at Frith House, Church Street, Croydon, Surrey. Telephone: Croydon 7592.

Professional Notes

Mr J. E. Rowe, A.C.A., has been appointed a director of The Birmingham Small Arms Company Ltd.

Mr D. J. Kean, T.D., F.C.A., a partner in the firm of Russell Tillett & Co, Chartered Accountants, has been appointed a director of Holborn and Frascati Ltd.

Obituary

CHARLES JAMES MARCH, F.C.A.

It is with regret that we record the death, on July 23rd, of Mr Charles James March, F.C.A., a former senior partner in the firm of W. B. Keen & Co, Chartered Accountants, of London.

Mr March, who was in his ninety-third year, was educated at the City of London School and began his career with Messrs F. B. Smart & Co, later join-

ing the staff of Messrs Deloitte, Dever & Griffiths.

He passed the Final examination of the Institute in June 1883, and commenced to practice on December 1st, 1883, in partnership with the late William Brock Keen. He was elected a Fellow of the Institute in February 1890.

Mr March retired from practice on June 30th, 1941, after sixty-three years in the City, and, owing to failing eyesight, resigned his membership of the Institute in February 1943.

His younger brother, the late Mr R. H. March, served as President of the Institute for the year 1927-28.

In Parliament

EXCESS PROFITS TAX: DEFERRED REPAIRS

Mr D. MARSHALL asked the Chancellor of the Exchequer in view of the fact that the time limit within which repairs deferred from the excess profits tax period can be done and still qualify for relief from excess profits tax will expire on March 31st, 1954, and that some such repairs have still not been carried out, whether he is prepared to recommend an extension of the time limit.

Mr R. A. BUTLER: I have carefully considered the point to which my hon. friend refers. This time limit would originally have expired at the end of 1949, and has already been extended twice. By the end of next March taxpayers liable to excess profits tax will have had more than seven years from the end of 1946, when excess profits tax ceased to be charged, to carry out any repairs which were deferred during the excess profits tax period. It is most important to settle all excess profits tax liabilities as soon as possible, and any extension of the deferred repairs time limit would involve further delay in clearing up the tax. In these circumstances, I regret that I cannot entertain the suggestion that the time limit for carrying out such repairs should be extended beyond March 31st next.

Hansard, July 16th, 1953. Written Answers, Cols. 188-9.

WAR GRATUITIES AND POST-WAR CREDITS

LIEUT.-COLONEL LIPTON asked the Secretary of State for War how many claims for war gratuity and post-war credits were received after January 1st, 1953; and what is the total amount that has been allowed.

MR HEAD: 3,450 claims have been received since January 1st, 1953: but their investigation has shown that more than 3,350 of the applicants had either already been paid or had no entitlement. The total amount disallowed is approximately £730.

Hansard, July 14th, 1953. Oral Answers, Col. 1880.

Double Taxation: Greece

The double taxation convention between the United Kingdom and Greece, signed in Athens on June 25th, has now been published.¹ The convention has yet to be ratified by the United Kingdom.

¹ Cmd. 8898. H.M.S.O. 6d net.

The Scottish Council

A new advisory committee of thirty members has been formed to assist the London committee of the Scottish Council (Development and Industry). The members are all Scotsmen distinguished in particular spheres of interest, and among them are the following eight members of The Institute of Chartered Accountants of Scotland: Sir Alexander Aikman, C.I.E.; Mr R. S. Cumming; Mr George Duncan; Sir John Morison; Mr J. A. D. Paton; Mr R. D. Stewart and Mr D. Taylor-Smith.

The first meeting of the new committee was held on July 16th, when Lord Bilsland, President of the Council, stated that the committee would be valuable in providing information from their wide knowledge and experience of British industry, on tendencies and matters generally affecting Scotland.

Special Commissioners of Income-tax

It has been announced by the Board of Inland Revenue that the Lords Commissioners of H.M. Treasury have appointed Mr Frederick Gilbert and Mr Richard William Quayle, O.B.E., to be Special Commissioners of Income-Tax.

Incorporated Accountants' Hull and District Society

At a recent meeting of the Incorporated Accountants' Hull and District Society, the following officers were elected for the ensuing year:

President: Mr R. L. Davy, F.S.A.A.

Senior Vice-President: Mr H. S. Kennington, F.S.A.A.

Junior Vice-President: Mr F. L. Gardiner, F.S.A.A.

Hon. Secretary: Mr A. Jarratt, A.S.A.A., 52 King Edward Street, Hull.

Hon. Treasurer: Mr R. T. Addy, A.S.A.A.

Hon. Librarian: Mr G. M. Mowforth, A.S.A.A.

Committee: Messrs J. A. Flowers, A.S.A.A.; S. King, F.S.A.A.; G. M. Mowforth, A.S.A.A.; C. H. Pollard, O.B.E., F.S.A.A.; H. N. Raine, F.S.A.A.; J. Reynolds, A.S.A.A.; and H. Scott, A.S.A.A.

Incorporated Accountants' Newcastle upon Tyne and District Society

The fifty-sixth annual general meeting of the Incorporated Accountants' Newcastle upon Tyne and District Society was held in Newcastle on July 3rd, when the following officers were elected for 1953-54:

President: Mr J. E. Spoors, F.S.A.A.

Vice-President: Mr A. Boyd, F.S.A.A.

Hon. Secretary: Mr J. S. A. Peffers, A.S.A.A.

Mr J. E. Ibbotson, A.S.A.A., was elected to the committee and five retiring members, Messrs C. P. Barrowcliff, F.S.A.A., L. C. Bye, A.S.A.A., A. Boyd, F.S.A.A., G. Stalker, B.COM., F.S.A.A., and J. Telfer, M.COM., F.S.A.A. were re-elected. The retiring president, Mr T. Jewitt, F.S.A.A., referred to the sad loss to the society by the death of Mr C. C. Akers, F.S.A.A., Vice-President.

Prevention of Fraud (Investments) Act, 1939

The 1953 edition of the annual publication, *Prevention of fraud (Investments)*¹, giving particulars of persons and firms authorized to carry on the business of dealing in securities has been issued by the Board of Trade. The publication gives the names and addresses of holders of principals' licences, members of recognized Stock Exchanges and of recognized associations of dealers in securities, and exempted dealers. It also gives particulars of authorized unit trust schemes.

The Association of Certified and Corporate Accountants

The Lord Mayor of Birmingham, Alderman G. H. W. Griffith, J.P., F.A.C.C.A., and the Lady Mayoress, Mrs Griffith, were the guests of honour at a recent luncheon given at *The Grand Hotel*, Birmingham, by the President and Council of the Association.

Chartered Accountants' Hockey Club

The Chartered Accountants' Hockey Club is playing the Bank of England in a match at the Bank of England Sports Ground, Priory Lane, Roehampton, on Wednesday, August 12th; bully off 6.30 p.m. An invitation to this summer match is extended to members and articulated clerks who are interested.

¹ H.M.S.O., 1s 9d, by post 1s 11d.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 3RD, 1878

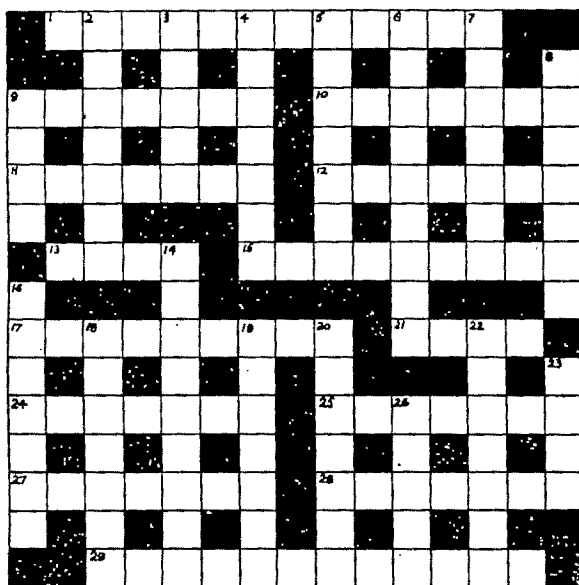
A Note in Passing "Legal" Criticism

What can have occurred to sour the sweet temper of our contemporary the *Law Times*? We know what affectionate solicitude it, as a rule, shows for accountants, and how tenderly regardful it is of the best interests of professional trustees. But in its last issue some malignant person, taking advantage evidently of the summer outing of the worthy editor, has dipped that functionary's pen in gall instead of the honeyed mixture which usually serves the purpose of ink when accountants are in the question. "We have already said," acridly remarks this editorial substitute, "that no bankruptcy reform will be worth having which does not give the quietus to the present system, by which so-called accountant trustees (!!) can get the estates of insolvent persons into their own hands, and make charges out of all proportion to actual services rendered." This legal romancer then recounts what it terms "a singular matter"—which is, indeed, "matter" from which "mind" is totally eliminated. The gist of it seems to be that whereas a certain compounding debtor was able to get his solicitor's costs taxed, he could not diminish his accountant's charges. It strikes us that we have heard of such cases before, thus showing that the law is not altogether blind.

ACCOUNTANTS' CROSSWORD

Compiled by KENNETH TRICKETT, A.S.A.A.

The solution will be published next week.



ACROSS

1. The sort of stock that can be got from remedial beer (12).
9. Cancel (7).
10. Assorted manures (7).

11. Apparently he's not deaf (7).
12. Kind of allowance (7).
13. Sell five and then finish (4).
15. Ordinal (9).
17. Confinement on anticipation of trade? (9)
21. A matter of interest (4).
24. Little more than a mutilated insect, but useful to the typist (7).
25. Have existence, like a partnership (7).
27. The journalist's business (7).
28. Tax expert's word for getting up (7).
29. Infantile gem (anagram) (two words, 5, 7).

DOWN

2. What's left (7).
3. Confused ways out (5).
4. Put 12 and 10 on the back (7).
- 5.
6. He must practise alone (9).
7. Scrutinize (7).
8. Break the law? Why? To get rich! (7).
9. This monetary unit is fixed, of course (4).
14. Management (9).
16. He may have begun as an executor (7).
18. County official (7).
19. Such a contract is void (7).
20. Having made it clear how most of it was to be dealt with (7).
22. By means of which we train for the examinations (7).
23. Stock Exchange dealer (4).
26. Put up (5).

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Results of Examinations held in May 1953

FINAL EXAMINATION

Held on May 26th, 27th, 28th and 29th, 1953

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the Walter Knox Scholarship and the Plender Prize for the English Law (Part II) paper
Range, Dudley Lawrence (F. H. C. Christmas), London.

Second Certificate of Merit, the W. B. Peat Medal and Prize and the Plender Prize for the English Law (Part I) paper
Sergeant, Peter (E. A. Radford), Woking.

Second Certificate of Merit
More, Alexander Victor John (C. H. Mead), London.

Fourth Certificate of Merit, the Plender Prizes for the Auditing and General Financial Knowledge and Cost Accounting papers
Stearse, John Crossley (A. Smith), Manchester.

Fourth Certificate of Merit
Carter, George (B. Asquith), Leeds.

Full List of Names of Successful Candidates (in alphabetical order)

- Adams, J. G. (R. G. Pegler), London.
Ainsworth, A. (F. Taylor), Blackburn.
Alderdice, K. (J. W. Donald), Newcastle upon Tyne.
Allen, P. G. (formerly with G. C. Mumford, deceased), London.
Allen, R. N. (C. L. Wykes), Leicester.
Alles, J. N. (W. Rosser-James), London.
Amin, T. (C. J. Hayward), London.
Amsterdam, D. (E. H. Brandt), London.
Andrews, J. R. (E. R. Hill), Nottingham.
Antoine, B. N. (B. W. Antoine), London.
Aungiers, B. P. (K. C. Foster), London.
Austin, J. D. D. (H. T. Ross), London.
Austin, M. H. (L. B. Prince), London.
- Badley, R. C. (H. C. Mather), Ormskirk.
Badrock, S. (C. Haywood), Bolton.
Bagshawe, N. T. (H. W. Sydenham), London.
Bainbridge, D. T. (V. W. Healop), Darlington.
Bamford, G. P. (H. T. Brown), Liverpool.
Barlow, C. R. (F. T. Wright), London.
Barragan, F. A. (E. W. Lowe), London.
Barrett, H. (L. C. W. Phillips), Oxford.
Bartlett, R. W. (L. McGillivray), London.
Baishall, G. F. (J. Donaldson), Preston.
Baxter, P. (D. V. L. Craddock), Reading.
Beaty, N. L. (J. N. Paul), Barnard Castle.
Bell, E. A. (G. H. Bowler), Liverpool.
Bery, B. L. (L. W. Madge), Croydon.
Bevins, E. R. (W. H. Horsfall), Liverpool.
Black, J. R. C. (R. Horton), Derby.
Blackburn, C. S. (D. C. S. Downs), Hull.
Blackburn, M. J. (R. H. MacIntyre), London.
Blagg, C. D. (J. Eccleshall), Nottingham.
Bloor, J. C. A. R. (A. E. Burton), London.
Boyd, G. B. M. (C. L. Davies), Leeds.
Brand, J. D. (R. E. Goate), Canterbury.
Brenchley, P. G. S. (J. D. Shepard), London.
Bristow, R. L. (A. J. Roberts), London.
Brittain, J. H. (A. Ball), Manchester.
Brooks, J. D. (W. Yarwood), Harrow.
Brown, L. G. W. (C. Mourant), London.
Brown, R. A. A. (D. C. Wilson), London.
Buchanan, J. H. (P. C. Lloyd), Liverpool.
Bullin, J. E. (A. N. Myers), Cambridge.
Burfoot, M. A. (W. J. Leeming), London.
Burns, G. A. (J. Larkin), Liverpool.
Burton, K. H. (H. A. R. J. Wilson), London.
Burtwell, G. A. (C. J. Comins), London.
Butters, D. H. (J. S. Braime), Leeds.
- Cain, J. C. (A. J. Hack), Liverpool.
Capes, G. H. (B. F. Jukes), Brighton.
Careless, S. J. (W. H. Newton), Birmingham.
Carroll, B. J. (R. R. Fieldhouse), Manchester.
*Carter, G. (B. Asquith), Leeds.
Cartwright, J. M. (H. W. Wilson), London.
- Catchpole, N. R. A. (L. M. Kershaw), London.
Cazalet, R. P. S. G. (J. F. T. Nangle), London.
Chalk, V. C. (H. J. Wells), London.
Chalkowski, F. (H. Brandes), London.
Chaplin, S. F. (D. A. Smith), Stafford.
Chapman, W. (J. L. Simpson), Bradford.
Cheale, J. D. (E. O. Frank), Lewes.
Clark, J. (E. W. Hammond), Darlington.
Clark, T. A. (H. R. Smith), Liverpool.
Clarke, P. N. (S. R. Dunwoody), London.
Cleere, E. G. (W. E. Ratnett), Reading.
Clowes, J. (J. A. Carter), Bolton. (*Auditing Prize*).
Coey, J. E. C. (B. W. Waters), London.
Coker, B. S. (R. Hall), Grays.
Coleman, J. L. (P. V. Rising), London.
Coleman, M. L. (G. F. Wildash), Worthing.
Collins, R. M. (S. K. Stott), Manchester.
Collins, W. S. (E. E. V. Rowley), Leicester.
Condylyffe, J. D. (J. W. Richardson), Stourbridge.
Connell, J. C. S. (R. W. C. Dunn), Birmingham.
Cook, D. S. (C. H. I. Chown), Ilford.
Cooke, R. G. G. (E. P. Thornhill), Bristol.
Cooper, A. V. (C. Croxton-Smith), Bristol.
Cooper-Parry, R. G. (K. C. Makinson), Burton-on-Trent.
Coren, A. (E. H. Ascher), London.
Corkish, W. D. (D. K. Gourlay), Liverpool.
Corringham, A. F. M. (W. O. Smedley), London.
Cox, P. A. C. (H. F. Dauncey), London.
Craig, W. (E. Royce), Manchester.
Crawford, S. D. (I. M. Morris), Manchester.
Crick, J. L. M. (C. M. Skinner), Manchester.
Cropper, R. H. (H. Squires), Dewsbury.
Cundy, A. B. (H. F. Palmer), Nottingham.
- Daly, T. P. (J. D. C. Stone), London.
Daniels, H. N. (H. Lemmon), King's Lynn.
Davidson, D. L. H. (E. D. Basden), London.
Davson, C. M. E. (L. H. Norman), London.
Dearne, H. I. (J. H. Lundy), Sunderland.
Deamond, J. T. B. (C. G. J. Silcock), Guildford.
Dixon, N. W. (J. F. Allan), Liverpool.
Dodwell, B. S. (L. J. Culshaw), London.
Dollimore, H. (A. N. Chapman), London.
Donert, J. B. (N. Spiro), London.
Douthwaite, J. A. (E. J. Pulleyn), York.
Dutton, G. P. (G. Stoughton-Harris), London.
- Eades, G. R. (N. G. Bascombe), Bristol.
Eallett, E. G. (G. T. Schofield), London.
Easdale, H. T. (N. B. Nutt), London.
Eason, D. H. B. (H. A. Hutchins), London.
Eastwood, D. A. (R. A. Hornby), Preston.
Eckersley, D. W. (formerly with F. Youatt, deceased), Manchester.
Eckersley, G. R. C. (C. H. Cockerill), Sheffield.
Eldridge, W. H. (S. H. Smith), London.

* See also Certificates of Merit above.

- Elliott, D. M. (A. S. Donald), Bournemouth.
 Ellis, S. (H. F. Strachan), Hull.
 Ellis, W. E. G. (C. J. Lucking), Nottingham.
 Ellison, J. S. (W. Lodge), Liverpool.
 Ellison, W. E. (L. B. Wright), London.
 Emsley, A. J. (J. G. Hanwell), Hull.
 Evans, D. E. (G. H. Bowler), Liverpool.
 Everard, G. G. E. (D. H. Cantrell), London.
 Ezekiel, D. R. S. (H. H. de C. Moore), London.
 Fairclough, M. B. (formerly with H. P. Carter, deceased), London.
 Farmer, M. (O. M. Darton), London.
 Fergusson, R. A. (H. Cook), Wolverhampton.
 Foggett, J. B. (W. R. Fairclough), Liverpool.
 Foord, D. F. R. (L. H. Stewart), Manchester.
 Freeman, N. (S. Freeman), London.
 Frier, B. R. (C. C. L. Randall), London.
 Frier, I. J. (E. E. Wilding), London.
 Frith, J. S. (J. Frith), Manchester.
 Fritz, R. M. (R. W. West), London.
 Gamble, H. C. (L. Jacobs), London.
 Gammon, S. J. (H. Birch), Manchester.
 Geipel, T. A. (A. H. McRobert), Leeds.
 Gent, G. E. (H. J. Jones), London.
 Ghandi, D. K. (J. W. G. Cocke), London.
 Gibbs, D. E. (D. H. Cantrell), London.
 Gibbs, N. (A. F. B. Ham), Bristol.
 Gibson, R. H. (H. A. Gibson), Barnsley.
 Gill, C. B. H. (H. C. Gill), Manchester.
 Gilmour, B. S. (K. S. Withers), Manchester.
 Goide, D. I. (M. E. Smith), London.
 Grant, D. I. (W. L. Barrows), Birmingham.
 Grant, E. J. (T. W. Selbey), London.
 Grassan, D. R. (S. Johnson), London.
 Gray, N. (T. B. Read), North Shields.
 Greaves, P. A. F. (B. Marsh), London.
 Green, A. B. (G. W. Drake), London.
 Green, E. T. (F. Webb), Manchester.
 Greenfield, R. H. (I. Nixon), Newcastle upon Tyne.
 Greenhough, J. A. (B. Myers), Manchester.
 Greenwood, W. (A. H. Taylor), Halifax.
 Grindrod, G. K. (T. Holden), Fleetwood.
 Gusterson, R. G. (C. H. Dew), Leamington Spa.
 Hack, J. R. (F. R. Hews), Worthing.
 Haddleton, S. J. (J. Porterhill), Banbury.
 Haines, D. G. (G. C. Ratnage), London.
 Hall, A. F. (G. S. Kerr), London.
 Ham, R. (P. Westhead), Manchester.
 Hamill, G. (M. J. H. Morton), Grimsby.
 Hamilton, G. (E. H. Wingfield), London.
 Hamilton, J. R. (W. Broad), London.
 Hanna, H. Y. (A. K. Gill), Leeds.
 Hannam, P. (R. Russam), Bradford.
 Hargreaves, A. B. (H. C. Davie), Blackburn.
 Harland, C. (A. L. Harland), Stockton-on-Tees.
 Hawkins, J. W. (M. B. Hewitt), Leeds.
 Hayim, D. A. (C. M. Duncan), London.
 Hays, D. (G. F. Davies), London.
 Hayward, L. (T. R. Hoddell), Nuneaton.
 Hector, G. (H. Holt), Manchester.
 Hedges, D. J. (formerly with R. W. Thornton, deceased), Oxford.
 Herdman, R. H. L. (R. L. Owen), Bristol.
 Hewins, R. (A. S. Hill), Coventry.
 Hibbert, N. F. (J. A. Basden), London.
 Hill, E. H. (P. F. Granger), Nottingham.
 Hiscocks, W. B. (F. Hiscocks), Liverpool.
 Hobson, H. J. (J. G. A. Ellis), Portsmouth.
 Hobson, O. W. (G. A. J. Morris), London.
 Hodder, G. J. W. (B. C. Muggleton), Birmingham.
 Holden, R. B. (J. E. Sagar), Blackburn.
 Hollis, W. (R. W. Frost), London.
 Holt, C. D. (J. F. Venner), London. (*Plender Prize for the Taxation paper.*)
 Horsell, R. I. (H. R. Tebb), Leeds.
 Horsman, D. A. C. (H. R. Davison), Barnstaple.
 Hosp, P. R. (E. N. Read), London.
 Howarth, G. G. (S. Woodyer), Liverpool.
 Howarth, R. (L. J. Hulme), Manchester.
 Hufford, H. G. (F. G. Peacock), London.
 Hughes, D. S. (F. C. Young), Sheffield.
 Hulley, G. (A. S. Bond), Sheffield.
 Humphreys, A. C. J. (L. M. G. Harris), London.
 Hunt, Miss G. (L. M. Biggs), Guildford.
 Hurst, J. G. (L. G. Davies), Liverpool.
 Hutchings, N. F. (B. Franklin), London.
 Ingham, G. (A. L. Gibson), Bradford.
 Innes, J. D. (G. F. R. Baguley), London.
 Irvine, A. J. G. (formerly with J. S. Brittain, deceased), London.
 Isenblatt, S. C. (J. H. Schotness), London.
 Isherwood, M. S. (P. Martin), Bolton.
 Jarred, R. W. (J. C. Sheldrake), Chelmsford.
 Jee, J. F. (H. Stones), Hinckley.
 Jenner, M. H. (G. Place), East Grinstead. (*Frederick Whinney Prize and the Plender Prize for the Advanced Accounting (Part II) paper.*)
 Jennings, B. E. (O. S. Holmes), Sheffield.
 Jennings, D. J. (F. Winn), London.
 John, A. (H. R. Elliott), Worthing.
 Johnson, E. H. (R. N. Roberts), Liverpool.
 Johri, T. B. (S. Trent), London.
 Jones, J. C. (J. R. C. Weber), Cardiff.
 Jones, K. W. (E. H. Orford), London.
 Jones, P. B. (N. T. Afford), Nantwich.
 Jones, W. H. (A. B. Snow), Hanley.
 Joughin, M. J. (F. C. A. Ledsam), Birmingham.
 Jowitt, J. B. (A. C. Goddard), London.
 Keeler, A. E. (W. A. Wheatcroft), Sheffield.
 Kelland, R. J. L. (R. B. Dixon), Birmingham.
 Kenyon, R. J. (F. W. Buck), Manchester.
 Khanna, S. C. (E. Manby), London.
 Kilpatrick, J. I. (O. F. Furnival-Jones), London.
 King, D. (J. H. Golcher), Leicester.
 Kirby, P. S. (L. M. Turnbull), London.
 Kirk, R. (C. H. Mead), London.
 Knight, J. L. (L. J. Culshaw), London.
 Knowles, R. B. (T. S. Rawlinson), Bradford.
 Koch, E. M. (M. J. Goldburgh), London.
 Langford, P. G. (O. W. Horne), Portsmouth.
 Langley, K. J. (formerly with H. G. Evans, deceased), London.
 Langton, H. E. C. (D. J. Black), London.
 Laws, S. (J. A. Crisp), Newcastle upon Tyne.
 Lawson, P. (G. B. Robins), Hull.
 Lebbell, D. (R. W. Metcalf), London.
 Ledingham, G. M. (W. L. Gallant), Leeds.
 Lee, A. P. (W. Taylor), Burnley.
 Lee, M. G. (C. H. Ansell), London.
 Lees, G. R. (B. J. Davis), London.
 Leigh, C. V. (Wallace Cash), London.
 Leigh, K. (K. Todd), Leicester.
 Leigh, M. P. V. (A. Jolly), Brighton.
 Lever, S. M. (H. Lever), London.
 Lewis, R. W. (C. G. Jolliffe), Newport, Mon.
 Lewsey, W. S. (G. H. Smith), Scarborough.
 Lloyd, G. L. (W. W. A. Couzens), London.
 Lord, J. W. (J. F. Hudson), London. (*Plender Prize for the Advanced Accounting (Part I) paper.*)
 Lugg, D. J. (J. W. Lodge), Truro.
 Lusk, B. H. (J. B. P. Williamson), London.
 McDonald, T. (H. Squires), Dewsbury.
 McGill, J. F. (E. N. G. Joicey-Cecil), London.
 McGorian, R. R. (J. Bond), Southport.
 McKenzie, J. N. (J. McP. McKenzie), Birmingham.
 Maitland, J. S. (Sir S. H. Gillett), London.
 Makin, P. (S. R. Aldrich), Preston.
 Manley, P. (L. V. Russell), London.
 Manning, W. G. D. (D. H. Collier), London.
 Marks, G. (E. B. Collier), London.
 Marks, L. (A. C. H. King), London.
 Martin, O. N. (K. R. Cork), London.
 Marwood, M. H. (B. H. Brewill), Nottingham.
 Mason, W. N. (A. Golland), Rochdale.
 Mawdaley, T. A. (J. M. Hanmer), Liverpool.
 Mayers, G. (J. Talbot), Liverpool.
 Meacham, M. B. (H. Sanders), Wolverhampton.
 Mellors, E. (B. H. Brewill), Nottingham.
 Mesher, H. C. (P. Ewen), London.
 Miller, E. (R. E. Macfadyen), Newcastle upon Tyne.
 Miller, L. R. R. (W. G. Payne), London.
 Mitchell, A. E. (E. Mitchell), Chesterfield.
 Money-Coutts, H. N. (Sir N. E. Waterhouse), London.
 Morcom, G. C. (S. L. Forwood), London.
 *More, A. V. J. (C. H. Mead), London.
 Morgan, Mrs A. M. E. (E. E. Davies), Cardiff.
 Mosert, H. (F. C. Griffiths), London.
 Moses, D. J. (G. H. Roberts), London.
 Moss, R. H. (V. L. Passer), London.
 Mould, J. G. (E. T. Thurlow), Guildford.

* See also Certificates of Merit above.

Neal, C. P. (H. Holt), Manchester.
 Newman, T. (I. G. de Mesquita), London.
 Niazi, M. A. (F. V. Sinden), London.
 Nichols, J. W. L. (W. T. Williams), London.
 Normandale, C. J. (C. U. Peat), London.
 Nuttall, C. A. (formerly with J. E. Pilkington, deceased), St Annes-on-Sea.
 Nuttall, J. M. (G. N. Ward), Keswick.

O'Neill, T. R. D. (R. L. Patchett), Scunthorpe.
 Osborne, J. T. (R. J. Osborne), London.
 Overton, R. D. R. (E. Rawcliffe), Blackpool.

Page, J. M. (G. G. Youngs), Norwich.
 Palfreyman, R. A. (E. M. Butterworth), Derby.
 Parker, L. (E. J. N. Nabarro), London.
 Parkes, K. R. (H. Tuckey), Birmingham.
 Patterson, I. J. (H. N. Butler), London.
 Payne, C. (F. Potts), Wigan.

Peers, B. C. (formerly with J. W. Williams, deceased), London.

Pelczar, O. H. E. (H. Squires), Dewsbury.
 Percival, G. (E. C. Smith), Manchester.
 Perkins, D. F. (F. C. A. Ledsam), Birmingham.
 Perrott, J. A. (G. R. Lowe), London.
 Peters, J. S. (R. J. Payne), Swansea.
 Pickles, G. A. (W. E. R. Short), Liverpool.
 Pinder, J. M. (C. Pollard), London.
 Pitkethly, G. E. (G. Magnay), Newcastle upon Tyne.
 Pitman, A. L. (G. de F. Gibson), Southport.
 Plater, J. R. (W. E. C. Offer), Oxford.
 Pollock, R. W. (T. Ireland), Birmingham.
 Prashker, S. L. (H. Lubbock), London.
 Preat, J. S. (W. R. T. Whatmore), London.
 Preston, J. K. (W. R. Carter), Manchester.
 Price, P. H. (A. Forsyth), Derby.
 Purcell, M. P. (H. T. Nicholson), Liverpool.
 Pybus, A. W. (G. A. Raymond), Tunbridge Wells.

Quinn, A. (K. H. Wrigley), Birkenhead.

Radstone, J. (W. L. Heather), London.
 Raine, G. S. (G. M. Holroyde), Bradford.
 Rajan, P. S. (E. E. Boyles), London.
 *Range, D. L. (F. H. C. Christmas), London.
 Raphael, H. (F. H. W. Shaw), London.
 Ravenscroft, V. A. (K. C. Pearce), London.
 Rawcliffe, J. O. (N. L. R. Trounce), Manchester.
 Reed, G. W. (A. W. Goodfellow), London.
 Reeve, H. (A. B. Harwood), Nottingham.
 Reid, D. A. (W. Elles-Hill), London.
 Reynolds, R. N. (B. M. Hammer), Liverpool.
 Rice, H. A. (G. D. Cucksey), London.
 Richards, R. K. (R. L. B. Guettier), London.
 Richards, T. R. (W. Holland), London.
 Riddell, J. R. (R. H. Hilton-Jones), Shrewsbury.
 Riley, G. S. (F. C. T. Lane), London.
 Roberts, B. A. (H. Norman), London.
 Roberts, D. B. (W. A. Dodd), Manchester.
 Roberts, N. R. (B. J. Ducker), London.
 Rogers, A. J. (A. R. Avens), Portsmouth.
 Roscoe, W. F. (E. D. Makepeace), London.
 Rose, B. D. (J. T. Corbett), London.
 Ross, P. F. (L. Ross), Wellington, Shropshire.
 Rowe, D. C. (M. Sheppard), Maidenhead.
 Royal, P. (formerly with S. W. Rowland, deceased), London.

Sambanthar, R. T. (B. W. Beech), London.
 Sampson, R. T. (H. W. May), Chelmsford.
 Sandiford, J. (J. Morris), Manchester.
 Scott, J. R. (A. W. Lowe), Liverpool.
 Scrine, J. H. (W. Wallace), Brighton.
 Seed, W. J. (formerly with T. Seed, deceased), Manchester.
 *Sergeant, P. (E. A. Radford), Woking.
 Sewell, J. (K. W. Clark), Reading.
 Seymour, G. (A. R. Tyler), East Grinstead.
 Shalit, D. M. (K. M. Scott), London.
 Shaw, G. J. (P. T. Duxbury), North Shields.
 Seldon, R. S. (E. R. Norman), London.
 Shepherd, J. B. (A. H. McRobert), Leeds.
 Simons, S. (P. R. Hart), London.
 Skett, J. C. (P. J. Garland), Birmingham.
 Skidmore, J. L. (A. G. Thomas), Sheffield.
 Skinner, W. J. (A. S. Donald), Bournemouth.
 Smith, F. S. R. (G. W. Roberts), Bradford.
 Smith, J. I. (J. W. Morrell), London.
 Smith, P. W. (D. Roberts), London.

Smith, R. H. (G. M. Harrison), Horsham.
 Smyllie, J. C. L. (E. C. W. Owen), Cardiff.
 Snape, D. B. (P. R. Fowler), Manchester.
 Sober, P. (V. Harris), London.
 Spencer, M. G. H. (D. S. Osborne), Birmingham.
 Stabler, J. S. (J. Sharp), Carlisle.
 Stansfield, F. W. (W. Lambert), Keighley.
 *Stearse, J. C. (A. Smith), Manchester.
 Stiles, B. (E. F. Weston), London.
 Sturgess, D. A. (J. L. Rose), Derby.
 Sutton, J. (T. A. V. Sutton), Stockport.
 Swallow, B. (T. R. Swallow), Oldham.

Tait, P. C. (D. J. Brannan), London.
 Tarsh, P. M. (S. R. Stammers), Brighton.
 Taylor, G. C. A. (E. G. Turner), Manchester.
 Taylor, M. R. (C. H. Starbuck), Birmingham.
 Tebbet, N. (A. G. Beddingfield), Sheffield.
 Tetley, S. J. (E. H. Glaisby), Leeds.
 Thomas, G. O. (G. S. Norris), Liverpool.
 Thomasson, J. D. (L. W. Crowther), Bolton.
 Thomlinson, R. D. (T. Dowell), Carlisle.
 Thompson, C. G. (T. C. Y. Hughes), London.
 Thompson, H. (J. L'E. Heppard), Blackburn.
 Thompson, P. E. D. (E. W. B. Cotterell), Birmingham.
 Thorman, J. L. (V. L. Thompson), Birmingham.
 Threlfall, T. R. B. (F. K. Murfitt), Nelson.
 Thwaites, Miss D. (F. N. Griffith), Kendal.
 Torry, L. W. (H. W. V. Lodge), London.
 Townsend, M. J. R. (A. A. Davies), Birmingham.
 Tregoning, B. (G. L. Bice), Truro.
 Triggs, R. J. (H. W. Sydenham), London.
 Trott, A. H. (V. L. Norris), London.
 Tubby, D. A. (A. F. Christlieb), London.
 Tuckman, S. (S. I. White), London.
 Twist, D. W. R. (F. J. Frodsham), Liverpool.
 Tyzack, R. (C. A. Smith), Sheffield.

Ullman, J. (D. B. Hirshfield), London.

Vinter, A. J. (A. W. H. Turketine), London.

Wailing, W. B. (G. G. Goode), Birmingham.
 Walsh, J. S. (R. J. Burford), Cardiff.
 Walters, R. C. (E. C. Kinghorn), Bradford.
 Walton, A. R. (C. Walton), Leeds.
 Walton, R. E. (J. Thornton), Oxford.
 Ward, A. G. (E. Moss), Accrington.
 Warner, H. G. (G. Whittaker), Manchester.
 Warrell, P. R. (J. Thornton), Oxford.
 Warrenner, K. (F. S. Mowforth), Hull.
 Weaver, R. P. (E. J. Wright), Manchester.
 Weaver, T. H. E. (S. Grace), Bristol.
 Webb, K. A. (L. V. Hazlewood), Birmingham.
 Webb, T. H. (W. R. Heatley), Coventry.
 Webber, B. W. (W. A. Hand), London.
 Wells, C. R. (D. Winter), London.
 Wells, T. B. (H. H. E. Edwards), London.
 Westhead, B. T. (S. Shemmell), Stafford.
 White, L. C. (A. W. Miles), Bournemouth.
 White, R. H. (J. B. Humphreys), Manchester.
 Whiting, Miss A. (C. G. Taylor), Nottingham.
 Whittaker, J. A. (W. Champ), Brighton.
 Whittaker, R. P. A. (F. E. Hawkes), Luton.
 Wildgoose, G. G. (B. G. McCarthy), Birmingham.
 Wilkes, P. H. (R. Dean), Stockport.
 Williams, C. A. (J. M. S. Coates), Newcastle upon Tyne.
 Williams, G. (H. J. Box), Worthing.
 Williams, H. (A. E. H. Benard), London.
 Wilson, R. G. (B. L. Denton), West Hartlepool.
 Witcher, W. H. V. (N. Gledhill), Winchester.
 Wong, C. V. R. (L. J. Bentley), London.
 Wood, A. E. (M. S. Ell), Henley-on-Thames.
 Wood, R. V. (W. G. Elcock), Birmingham.
 Wood, T. S. (A. G. Oliver), Birmingham.
 Woodhouse, A. W. (P. Joy), Lewes.
 Woodruff, S. W. (H. G. Daniels), Redhill.
 Worthington, M. J. (F. W. Farnsworth), Derby.
 Wright, C. R. (W. C. Nelson), Wolverhampton.
 Wynn-Evans, P. G. (C. B. Burrows), Liverpool.

Yeo, H. D. (H. S. Widgery), Hereford.
 Yong, C. H. (J. G. M. Coates), Richmond, Surrey.
 Young, D. A. W. (G. S. Fletcher), London.
 Young, Miss R. M. (H. K. Campbell), Bristol.

* See also Certificates of Merit above.

429 Candidates passed.

483 Candidates failed.

INTERMEDIATE EXAMINATION

Held on May 19th, 20th and 21st, 1953

Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the Stephens Prize and, with one other, the Frederick Whinney Prize
Mendelsohn, Peter (J. F. T. Nangle), London.

Second Certificate of Merit and, with one other, the Frederick Whinney Prize
David, Colin Prichard (C. R. Daniel), Cardiff.

Third Certificate of Merit
McNeil, Ian Robert (A. J. Heald), Brighton.

Fourth Certificate of Merit and the Plender Prize for the Taxation and Cost Accounting paper
Turner, Max Henry (G. G. G. Gault), Ipswich.

Fifth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Partnership) paper
Booth, Robert Brian (M. S. Walker), Bradford.

Sixth Certificate of Merit
Wiseman, Paul (P. Fine), London.

Seventh Certificate of Merit
Kapoor, Romesh (A. H. Farquhar), London.

Eighth Certificate of Merit
Wilson, Frank Brian (F. Jeffery), Derby.

Ninth Certificate of Merit
Bhargava, Kamesh Prasad (W. Pickles), Manchester.
Clark, John Vincent Michael Gordon (E. York), London.

Eleventh Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Limited Companies) paper
Bentley, David John (H. J. Williams), London.

Eleventh Certificate of Merit
Beer, Michael John (N. A. Wheatcroft), Sheffield.
Gibbs, Philip Martin Domville (F. O. M. Smith), London.
Huckstep, Colin Perkins (R. H. Dutchman), London.

Fifteenth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Executorship) paper
Jaeger, John Michael Lytton (E. D. Taylor), Leeds.

Fifteenth Certificate of Merit
De Chasteigner Du Mee, Pierre Roger (Sir H. G. Howitt), London.

Seventeenth Certificate of Merit
Wickenden, Robert Charles (W. C. Smith), London.

Eighteenth Certificate of Merit
Eden, Eric Arthur (G. W. Tonks), Wolverhampton.

Nineteenth Certificate of Merit
Martin, Godfrey James (A. L. Barnett), Bristol.

Twentieth Certificate of Merit
Bishop, Kenneth Godfrey (F. C. Russell), London.

Full List of Names of Successful Candidates

(In alphabetical order)

Abbott, G. W. (H. D. Milroy), Southend-on-Sea.
Adamson, R. J. (C. H. Young), Bristol.
Ahmad, R. (D. P. Jones), Pontypridd.
Ainsworth, B. T. (V. H. M. Bayley), London.
Alderman, F. A. (C. S. Shaw), Leamington Spa.
Allen, D. T. (R. S. Andrews), London.
Allen, T. W. (J. B. Mead), Birmingham.
Anderson, K. G. (F. J. Wheeler), London.
Andrews, K. D. (N. H. Gill), Leeds.
Ankers, T. M. (G. T. Bridge), Manchester.
Anson, J. P. (H. R. Crouch), London.
Anthony, H. D. (R. W. Metcalf), London.
Appleby, G. B. (S. Whittingham), Manchester.
Archbold, J. K. (G. G. Dickinson), Sheffield.
Archer, A. G. (C. P. Mabbs), London.
Armitage, E. D. (F. Howarth), Middleton.
Armitage, R. J. (N. T. Stoker), London.
Arnold, D. M. (S. E. Graves), Brighton.
Arnold, J. (H. K. Easton), Birmingham.
Arnold, M. H. (S. V. Turner), Manchester.
Aspin, E. V. (A. S. Maddison), Birmingham.
Austin, E. D. (T. W. Pickard), Cardiff.
Ayscough, J. (L. D. Morse), London.

Baker, T. (B. W. James), Lewes.
Baldwin, A. C. (J. H. Bell), Manchester.
Balfour, M. S. (C. L. Nelson), London.
Ball, F. R. (C. C. Taylor), Liverpool.
Bamford, R. St. J. (J. H. B. Young), Canterbury.
Bardwell, J. E. (E. N. T. Clowes), Ipswich.
Baron, I. W. H. (M. B. Hancock), Birmingham.
Bartlett, P. A. (W. C. M. Hill), Stratford-on-Avon.
Barua, D. P. (S. E. Newman), London.
Bates, M. C. (J. V. Morris), London.
Batty, J. F. (D. Lorimer), Portsmouth.

Bayliss, J. W. (W. W. Mortimer), London.
Baynes, K. W. (T. Jeffery), London.
Beacom, B. E. (H. V. Bryan), London.
Beaver, J. A. (W. G. Beaver), Southport.
*Beer, M. J. (N. A. Wheatcroft), Sheffield.
Beet, Miss M. A. (H. H. Altman), Sheffield.
Behrend, D. M. (E. N. MacDonald), Liverpool.
Bellamy, G. F. (W. E. Willis), Leicester.
Benison, A. (K. L. Collin), Sheffield.
Bentley, A. (K. M. Moss), Bradford.
*Bentley, D. J. (H. J. Williams), London.
Berry, M. S. (P. B. Settle), Colne.
Berry, P. J. (W. S. Marshall), Scarborough.
Berthoud, J. A. (C. Crews), Manchester.
*Bhargava, K. P. (W. Pickles), Manchester.
Bier, M. (L. Irvine), London.
Billington, C. H. (W. R. S. Huyton), Preston.
Birch, D. J. (T. L. Plewman), Leicester.
Birkett, M. J. (D. A. Clarke), London.
*Bishop, K. G. (F. C. Russell), London.
Blakie, D. D. (J. F. Warren), London.
Blakebrough, D. C. (R. I. Skeet), London.
Blakey, F. R. (E. Wood), Burnley.
Bleasdale, A. (C. F. Savage), Warrington.
Blundell, P. D. H. (D. C. Wilson), London.
Bogle, P. D. (F. D. Marshall), Manchester.
Bolton, Miss J. M. A. (L. McGillivray), London.
Bolton, N. H. (J. Toulmin), Preston.
Boltsa, M. (G. Woolfe), Manchester.
Bond, J. M. (H. K. Poppleton), Manchester.
Booker, B. S. (S. A. Kleinberg), London.
*Booth, R. B. (M. S. Walker), Bradford.
Bowker, R. C. (A. L. Gibson), Sheffield.
Bradshaw, T. J. (C. R. Osborn), London.
Brailsford, H. B. (R. T. Tiplady), London.

* See also Certificates of Merit above.

- Brand, E. W. (O. N. Ellis), Haverfordwest.
 Breaner, A. M. (B. Leigh), London.
 Brett, D. W. (A. E. Lark), Great Yarmouth.
 Bristow, J. H. (W. H. W. Greenslade), London.
 Brocklebank, J. P. (R. G. C. Horton), London.
 Bromfield, J. R. (G. S. H. Dicker), Great Yarmouth.
 Brooke, D. N. (A. Shaw), Dewsbury.
 Brown, J. D. B. (B. J. Ketchlee), London.
 Brown, J. E. (H. J. Impey), Oxford.
 Browne, M. J. (S. N. Elgar), London.
 Brownson, K. McK. (J. R. Burne), Liverpool.
 Buckoke, W. (J. W. Fawdry), Portsmouth.
 Bullock, J. (J. D. George), London.
 Burn, B. J. (C. A. Solly), London.
 Burrows, M. J. (N. G. Bascombe), Bristol.
 Burrows, R. A. (F. Addison), Derby.
 Butler, B. J. (J. S. Tema), Oxford.
 Butler, I. D. (W. E. Beddington), Derby.
 Butler, S. MacL. (G. Ford), Bournemouth.
 Butcherick, P. S. (G. H. Roberts), London.
 Butters, L. B. (J. N. Cornish), London.
- Callaghan, P. (C. W. Tweedale), Manchester.
 Callaway, N. K. (D. J. Brass), London.
 Capon, G. C. C. (E. A. Sawkins), Southend-on-Sea.
 Carmichael, R. D. (B. J. Bridges), London.
 Carr, N. E. (C. A. W. Smethurst), Grimsby.
 Cartwright, R. (J. S. Wortley), Sheffield.
 Chadwick, R. L. (E. F. Wilkins), London.
 Champness, R. D. (A. A. F. Parker), London.
 Chapman, R. S. (D. J. Duthie), London.
 Cheales, M. B. (R. Philp), London.
 Chick, H. C. (I. G. Miller), Cardiff.
 Clark, H. J. S. (J. C. Gardiner), London.
 *Clark, J. V. M. G. (E. York), London.
 Clarke, B. H. (F. L. Greathead), Lytham-St-Annes.
 Clay, M. J. (L. G. Rand), London.
 Clay-Peters, D. B. (R. A. Wood), London.
 Clifford, C. S. (W. H. Clifford), Southwell.
 Cohen, D. (J. Bowman), London.
 Cohen, L. (N. W. Newman), London.
 Cole, M. W. (J. W. Shaffery), St Austell.
 Collings, S. G. (E. T. Martin), Newcastle upon Tyne.
 Collins, B. A. (G. S. Simmonds), Teddington.
 Collins, L. E. L. (H. F. Ware), London.
 Collins, S. (K. Paterson), Sheffield.
 Connally, B. (G. F. Shaw), Huddersfield.
 Cook, F. W. (R. W. Swinbank), Stockton-on-Tees.
 Cooper, G. M. (E. C. Corton), Leicester.
 Corey, A. W. (D. R. B. Smith), London.
 Cornish, J. (C. J. K. Boyce), Guildford.
 Cornish, P. F. (A. Scotten), London.
 Cotton, M. J. (G. W. Smith), Huddersfield.
 Cousins, N. F. (T. N. Halstead), Manchester.
 Cox, B. B. (O. Hill), Bromley.
 Crabtree, G. N. (H. A. Fair), Ormskirk.
 Crapnell, A. J. (H. R. Elliott), Worthing.
 Crawford, C. W. (J. F. Venner), London.
 Cross, J. R. (W. R. Kingston), London.
 Cross, P. J. W. (R. L. Tillett), London.
 Crosse, H. H. (J. J. C. Mack), London.
 Cruickshank, J. McI. (H. D. Leete), Manchester.
 Cruttenden, J. L. (V. G. Hussey), Burgess Hill.
 Cumming, R. D. (J. B. Pittman), London.
 Cundy, W. B. (D. Barlow), Bolton.
 *Curd, I. C. (F. O. M. Smith), London.
- d'Agapeyeff, A. P. E. (W. P. Hancock), London.
 Dagnell, M. P. (T. D. Redhead), London.
 Dancer, F. B. (H. W. C. Bartlett), London.
 Dane, T. E. (A. E. Travis), Manchester.
 Darlington, R. F. M. (P. H. Tyack), London.
 *David, C. P. (C. R. Daniel), Cardiff.
 Davies, E. C. (A. J. Hebblethwaite), London.
 Davies, M. J. (H. Reeve), London.
 Davies, R. K. (W. E. Fordham), London.
 Davis, K. (R. E. Beckett), Walsall.
 Davis, N. S. (V. N. Stevens), London.
 Dawson, C. W. (G. G. Jackson), Skipton.
 Dean, G. R. (C. W. D. Over), Woking.
 *De Chasteigner du Mee, P. R. (Sir H. G. Howitt), London.
 De Morgan, J. E. C. (A. D. Fincham), London.
 Dewdney, P. B. (J. Spence), London.
 de Zouche, R. B. (R. C. de Zouche), Liverpool.
 Diamond, L. S. (S. Fisher), London.
 Dobson, I. J. H. (J. Taylor), Newcastle upon Tyne.
- Dockery, O. J. (W. Kirkup), Newcastle upon Tyne.
 Docwra, J. (N. Brett), London.
 Dodd, W. D. W. (P. M. Dodd), Liverpool.
 Donovan, M. J. (J. B. Marks), London.
 Douglass, J. S. (G. N. Taylor), Newcastle upon Tyne.
 Dove, J. R. (T. Dutton), Northampton.
 Down, M. K. (E. A. Mortleman), London.
 Downes, P. G. (J. G. Beaumont), Leeds.
 Drage, W. W. J. (E. T. G. Terrell), London.
 Drummond, R. G. B. (C. B. Holland), London.
 Dudley, P. (M. Wells), Leicester.
 Dukes, D. L. (S. D. Moore), Hull.
 Dunsdon, J. M. (P. M. Hull), St Ives.
- Eades, B. (W. G. A. B. Gardner), Stafford.
 Eades, C. W. (J. E. B. Barron), Winchester.
 *Eden, E. A. (G. W. Tonks), Wolverhampton.
 Edwards, E. W. (E. S. Browne), Liverpool.
 Edwards, P. (C. S. S. Cowper), Newbury.
 Elliott, P. A. (F. C. S. London), London.
 Emery, K. J. (H. D. Hewines), Walsall.
 Engert, Miss H. F. (F. R. Paine), London.
 Epstein, M. (J. L. Turner), London.
 Epstein, R. (R. G. Clayton), London.
 Etor, J. R. (W. C. Morgan), Plymouth.
 Evans, A. B. (R. W. West), London.
- Farbridge, N. B. (S. E. Clear), Bedford.
 Farrant, N. F. (W. Y. Thomson), London.
 Fenwick, A. S. (J. D. Clark), London.
 Ferguson, D. A. (H. G. Ash), London.
 Fernando, M. T. L. (S. J. Lambert), London.
 Fielding, H. J. C. (H. H. Fielding), Paignton.
 Fisher, W. M. B. (W. E. Webber), London.
 Fitton, G. (G. D. Johnstone), Cheltenham.
 Fleetwood, B. (C. Fine), London.
 Fletcher, D. F. (P. J. Madge), Southampton.
 Fone, C. W. (R. B. Barker), London.
 Fontenoy, F. E. J. (N. D. Grundy), London.
 Ford, I. H. (S. E. Worley), Eastbourne.
 Forrester, A. (D. N. Walton), Manchester.
 Fokett, C. J. C. (A. L. Ball), Bournemouth.
 Foster, R. J. (A. M. Baker), Wolverhampton.
 Franklin, D. A. (H. B. W. Parker), Grimsby.
 Frazer, I. W. (W. G. Frazer), London.
 Freeman-Attwood, E. A. C. (J. G. Hickmore), London.
 Frost, R. N. (H. Bowker), Sheffield.
 Furnell, D. J. (C. S. Stephens), London.
- Gale, D. H. (J. Maxwell), Manchester.
 Garner, J. S. (F. A. Bell), London.
 *Gibbs, P. M. D. (F. O. M. Smith), London.
 Gilbert, A. S. (E. Corcoran), Manchester.
 Gilbert, M. J. (J. A. Hill, Junr.), London.
 Gillespie, K. J. (W. E. Gillespie), London.
 Gillett, J. B. (S. W. Penwill), London.
 Gillgrass, M. J. (K. G. Warriner), Leeds.
 Godfrey, E. C. (J. B. Corrin), Northampton.
 Golding, H. J. (R. F. Mason), London.
 Golding, T. E. (C. P. Mabbs), London.
 Gordon, E. (A. V. Hedges), Burnley.
 Goaling, M. (J. C. Beauvais), Bridlington.
 Gough, L. J. (P. T. Muggison), Leicester.
 Graff, G. M. (S. Fisher), London.
 Granger, B. C. (R. R. Coomber), London.
 Grant, P. A. (J. L. Wannan), London.
 Grantham, A. B. (R. C. Deith), London.
 Green, M. D. (J. B. Worley), London.
 Greenall, J. (C. I. Vernon), Crewe.
 Greene, M. (M. H. Leighton), London.
 Greenwood, J. R. (E. R. Longman), Leeds.
 Greenwood, T. (G. E. Morrish), London.
 Gregory, R. A. C. (E. F. Baker), London.
 Gregson, S. (A. Rainbow), Houghton-le-Spring.
 Grey, R. S. (P. F. Cansdale), London.
 Griffin, R. M. (W. Oppenheimer), London.
 Griffith, J. H. P. (G. H. Wagstaff), London.
 Griffiths, A. B. (F. Neatham), Warrington.
 Grimley, A. R. (R. Grimley), Nottingham.
 Groom, E. C. (G. A. Taylor), Kettering.
- Haine, W. I. B. (D. W. Robertson), London.
 Hall, B. N. (R. E. Goate), Canterbury.
 Halliday, I. F. (George P. Norton), Huddersfield.
 Halloran, C. T. (S. H. Swallow), London.
 Hamilton, I. D. (N. R. Rigby), Manchester.
 Hamilton, K. G. E. (F. J. Braybrooks), London.

* See also Certificates of Merit above.

Hampton, J. K. (H. T. Brown), Liverpool.
 Handique, N. K. (R. Davson), London.
 Handley, J. M. (J. E. N. Brough), Ripon.
 Harris, D. J. (R. A. Masters), London.
 Harris, M. W. (N. C. Eyre), Dursley.
 Harrison, M. (F. T. Barnes), London.
 Hart, O. N. N. (N. B. Hart), Brigg.
 Hawkins, W. J. (W. H. Westhead), Stafford.
 Hay, M. J. (R. O. White), London.
 Hayman, M. A. (W. T. Horsfall), Liverpool.
 Haynes, M. T. A. (C. R. K. Mace), London.
 Hayton, R. (H. G. Walton), Manchester.
 Head, B. A. E. (N. W. Smith), London.
 Heap, G. W. (H. Hey), Manchester.
 Heddon, W. J. (W. A. Waller), Southend-on-Sea.
 Hellen, D. R. (C. S. Goddard), London.
 Hemus, D. J. (A. E. Jacobs), Birmingham.
 Henson, B. A. V. (H. W. Elliott), London.
 Herring, B. J. (T. D. Walker), London.
 Hicks, D. R. (T. D. Redhead), London.
 Higgins, P. (G. R. Hargreaves), Chester.
 Hill, L. N. (W. J. Corpe), Bristol.
 Hillier, D. (L. J. Culshaw), London.
 Hilton, D. S. (A. Bleazard), Blackpool.
 Himsworth, M. W. (A. J. Downs), Hull.
 Hirst, M. H. (C. K. Frost), Leeds.
 Hirst, S. L. (F. T. Barnes), London. (*Plender Prize for the General Commercial Knowledge paper.*)
 Hitch, J. R. (T. H. Williamson), Liverpool.
 Hobbs, J. P. (H. C. Jackson), Retford.
 Holgate, M. A. (V. T. Edmonds), London.
 Hollingsworth, R. N. (H. Bashforth), Sheffield.
 Holmes, J. H. (J. F. Chadwick), London.
 Horner, J. H. (W. A. Lamerton), London.
 Horton, E. J. (E. C. Mercer), Liverpool.
 Horton, P. (K. C. Moore), Bath.
 Hough, P. J. (J. M. Hough), Newcastle upon Tyne.
 House, M. M. (G. Bostock), London.
 Howard, J. N. (G. A. Morgan), Swansea.
 Howling, R. J. (D. T. Veale), Leeds.
 *Huckstep, C. P. (R. H. Dutchman), London.
 Hughes, J. A. (J. Richmond), Bangor.
 Hughes, J. R. (B. Rowe), Pontypriid.
 Hunt, D. J. (R. W. Hodges), Redditch.
 Hunt, P. T. (A. N. D. Smith), London.
 Hyde, F. E. (J. Eaves), Manchester.
 Hyde, K. (F. J. Fullerton), Leeds.

Illingworth, D. (G. Brown), Bradford.
 Ince, N. J. (L. H. Stewart), Bury.

Jackson, J. F. N. (F. B. Lethhead), Sunderland.
 Jackson, R. J. (J. C. Peirson), London.
 *Jaeger, J. M. L. (E. D. Taylor), Leeds.
 James, D. P. R. (S. K. Tubbs), London.
 James, E. A. (W. L. Rowland), London.
 Jenkins, G. A. (W. G. Jones), Llanelly.
 Jessup, A. (H. S. King), London.
 Jones, G. W. (A. E. Thomas), Swansea.
 Jones, P. S. (R. N. Roberts), Liverpool.
 Jones, R. C. (F. D. Jones), Derby.
 Jones, R. W. E. (R. H. Nicholson), London.
 Jordan, M. A. (B. H. A. Rowe), Derby.
 Jours, T. (D. O. Johnston), London.

*Kapoor, R. (A. H. Farquhar), London.
 Kaye, W. (G. Sorene), London.
 Kellner, E. U. (B. Hennell), London.
 Kember, W. P. (O. Couse), Birmingham.
 Kilner, T. A. A. (B. C. Gain), London.
 King, T. H. E. (H. L. Pedley), London.
 Kirkpatrick, R. (G. Magnay), Newcastle upon Tyne.
 Kitcat, J. R. de W. (H. J. H. Sisson), Newcastle upon Tyne.
 Kitchen, J. M. (L. Netherwood), Huddersfield.
 Knill, B. T. H. (R. C. Larking), Canterbury.
 Knowles, C. A. (S. Dallow), Liverpool.
 Krieger, J. (R. Whitehead), London.
 Krishnamra, T. (G. W. Murphy), Manchester.

Laing, D. M. (R. Gronow), Wolverhampton.
 Lamerton, G. (R. Davson), London.
 Latham, C. V. M. (F. C. Hanna), London.
 Latham, D. F. J. (H. W. V. Lodge), London.
 Lawrence, P. G. (A. G. B. Drabble), London.
 Lawton, T. (E. Thompson), Manchester.
 Legg, V. J. (R. R. Pickering), London.

Leonard, J. T. (W. B. Holden), London.
 Levey, J. R. (J. O. Attlee), Dorking.
 Levine, J. (R. D. Houseman), London.
 Lilley, G. P. (R. Allwood), Chester.
 Lilley, J. P. U. (G. E. Millson), London.
 Lindeck, J. M. (C. W. Wildy), London.
 Linsley, M. A. (J. T. Finnis), London.
 Lister, C. (S. Harrison), London.
 Llewellyn, J. E. C. (R. H. Parsons), Eastbourne.
 Lusty, J. P. (E. A. Bland), Colchester.
 Lyon-Marie, P. D. (E. V. Quaife), Tunbridge Wells.

McAnulty, M. C. (F. H. Richardson), Derby.
 McEvoy, K. J. (formerly with J. A. Bodoano), London.
 Macfarlane, I. (A. Punchard), London.
 McGeorge, W. (N. Dorrington), Manchester.
 Mackenzie, P. A. (G. D. Hopkinson), Walsall.
 McMillan, M. D. (L. I. Grant), London.
 McNally, P. J. (N. C. Elliott), London.
 *McNeil, I. R. (A. J. Heald), Brighton.
 Maguire, D. (J. Dobell), Manchester.
 Mahaffey, M. I. (J. M. Glaister), Carlisle.
 Mahne, C. P. (P. L. Eynon), London.
 Maksud, G. (F. V. Sinden), London.
 Mallett, M. J. (N. Lewis), Liverpool.
 Mander, A. N. (A. L. Bersey), London.
 Manklow, I. G. (S. G. G. Ohly), Brighton.
 Mappin, M. G. (H. C. Medlam), London.
 March, The Earl of (T. J. Bond), London.
 Mark, R. W. (R. Heatherington), Newcastle upon Tyne.
 *Martin, G. J. (A. L. Barnett), Bristol.
 Massing, A. H. (M. Striker), London.
 Maxwell, C. J. P. (R. H. Powell), Weston-super-Mare.
 May, C. J. (W. T. Jones), Birmingham.
 Meaden, G. F. (W. W. Bigg), London.
 Measor, W. A. (R. M. Matheson), London.
 *Mendelssohn, P. (J. F. T. Nangle), London.
 Messenger, M. A. (F. R. Tillet), London.
 Metzger, R. (S. C. Churcher), London.
 Michaelson-Yeates, I. A. P. (A. R. O. Slater), London.
 Miller, C. F. (J. C. Beauvais), Bridlington.
 Miller, D. (E. C. Hobbs), Retford.
 Mills, G. W. (F. Smith), Manchester.
 Mills, M. S. (I. H. Hayward), Nottingham.
 Milne, J. N. (R. T. Walters), London.
 Milne, P. B. (C. H. McKnight), London.
 Milner, T. J. L. (R. A. Coupland), London.
 Mitcalfe, T. P. (N. W. Bell), Darlington.
 Mitchell, H. D. (C. Royall), Grimsby.
 Mitchell, L. D. (W. G. Ponter), Birmingham.
 Moffatt, A. J. (K. H. Gibbons), Bristol.
 Mohamed, M. A. H. (E. L. Donald), London.
 Mohamed, M. H. (A. W. Joiner), Birmingham.
 Montriou, C. L. (C. R. Watson), Dorking.
 Moore, L. (S. Harrison), London.
 Moore, P. G. (A. L. Rowell), Bristol.
 Moore, P. S. (R. D. C. Webb), London.
 Morgan, Miss A. (E. D. Jehring), London.
 Morrison, B. E. (A. I. Todman), London.
 Moss, M. E. (E. J. Furniss), London.
 Mott, P. W. (F. H. Taylor), London.
 Moxon, C. F. T. (P. G. Wenham), London.
 Munyard, R. C. (J. T. Patterson), London.
 Murray, J. (W. Swinburne), Preston.

Nathan, R. (F. H. G. Williams), London.
 Newman, D. A. W. (D. G. Weston), London.
 Newman, P. H. H. (S. J. E. Truman), London.
 Nicholas, T. I. S. (C. L. Arundale), Macclesfield.
 Norman, W. K. (A. A. Bradshaw), Cranleigh.
 Norris, J. R. (T. Hoffman), London.
 North, C. J. N. (P. L. H. Smith), Harrogate.
 Nowell-Withers, D. B. (E. D. Robinson), Blackpool.
 Nunes Vaz, I. H. (C. Ellice), London.

Ogden, J. P. (R. B. Ogden), London.
 Osborne, P. H. (C. S. Birbeck), Stoke-on-Trent.
 Osbourne, J. S. (R. A. Duthie), Carlisle.
 Owen, D. (R. G. Finn-Kelcey), Ashford, Kent.
 Owen, J. (T. B. Murtland), Leeds.
 Owen, J. A. (L. Scott), Hastings.
 Owen, M. G. M. (N. A. Wheatcroft), Sheffield.
 Ozerovitch, J. (S. J. Melbourne), London.

Page, J. R. (R. R. Pickering), London.
 Paiba, M. D. (S. F. Shuttleworth), London.

* See also Certificates of Merit above.

Palim, R. G. (G. C. Buckley), Stockport.
 Pallant, M. W. (A. W. Sarson), London.
 Pardoe, B. F. J. (R. L. Jones), London.
 Parker, R. C. (J. C. Sherratt), Brighton.
 Parker, W. R. (F. H. Walsh), Burnley.
 Parkes, D. M. (A. E. M. Harbottle), Bristol.
 Parry, P. O. (A. A. Johnstone), Ellesmere Port.
 Patchett, P. E. (E. Eastwood), Bradford.
 Patel, T. N. (C. McCormick), London.
 Pearson, G. (A. Hanson), Manchester.
 Pearson, M. B. (H. J. R. Ledsam), Birmingham.
 Perkins, J. (A. H. McRobert), Leeds.
 Perry, S. (H. W. Neep), Birmingham.
 Peters, P. (E. J. Roff), London.
 Phillips, M. I. (J. Harrison), London.
 Phillips, M. N. (G. D. Shepherd), Cardiff.
 Pike, W. H. R. (J. B. Burnie), Nottingham.
 Pilbrow, M. E. (R. J. Osborne), London.
 Pinches, M. J. (D. A. Clarke), London.
 Pinder, G. (J. D. Watson), Stockport.
 Pinnock, R. D. (I. H. Wilkins), London.
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 Platt, J. E. (G. G. Jackson), Skipton.
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Sankey, K. (G. F. B. Peirson), Coventry.
 Sassienie, N. N. (F. W. Barnes), London. (*Plender Prize for the Auditing Paper*).
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 Waller, H. (W. S. Harrison), Dewsbury.
 Waller, R. R. (F. R. Waller), London.
 Wallis, P. (W. R. Balesford), Nottingham.
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* See also Certificates of Merit above.

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* See also Certificates of Merit above.

571 Candidates passed.

580 Candidates failed.

PRELIMINARY EXAMINATION

Held on May 12th, 13th, 14th and 15th, 1953

Full List of Names of Successful Candidates

(in alphabetical order)

Angell, P. G., Kenton.
 Appleby, D. G., Rotherham.
 Armstrong, H. C. A., Addlestone.
 Astin, J. C., Leicester.
 Barnett, B. L., Wembley.
 Barrington-Reinganum, J. A. C., London.
 Bliss, A. D., London.
 Bracken, P. W., Basingstoke.
 Bradbury, W. A. N., Oldham.
 Bramwell, D., Seascale.
 Bullen, J. T., Wallasey.
 Caine, D. A., London.
 Cheetham, N. T., Irby.
 Clowes, D. W. G., Guildford.
 Coomber, A. J., Carshalton.
 Cross, W. J., Chelsfield.
 Crouch, C. A. G., Twickenham.
 Crowe, J., Newcastle upon Tyne.
 Crowley, M. St L., Shoreham-by-Sea.
 D'Abreo, J. A. J., Manchester.
 Davies, T. J., Dorking.
 Dickinson, F. W., Stretford.
 Dowse, E. G., Hessele.
 Elder, R. B., Coventry.
 Elliott, B. C., Liverpool.
 Favell, M. E., Epsom.
 Fisher, D. R., Horsham.
 Flynn, C. E., Coventry.

Hackett, J. C., Kidderminster.
 Hale, M. R., Guildford.
 Hatcher, T. J. A., Richmond, Surrey.
 Henderson, G., Newcastle upon Tyne.
 Henson, R., Newcastle upon Tyne.
 Highman, P. D., Sale.
 Hinton, M. H., Thorpe Bay.
 Hussain, S. R., South Croydon.
 Iliff, A., Coventry.
 Jacovides, O., London.
 James, G. W., Sutton.
 Jewsbury, R., Stockport.
 Johnson, R. H., Sheringham.
 Kitsberg, B., Edgware.
 Lakoufis, N., London.
 Lambert, J. E., Birmingham.
 Lambourne, C., Leigh-on-Sea.
 Lathe, T. C., Wolverhampton.
 Lawton, I. J., Liverpool.
 Lloyd, R. W., Chipstead.
 Mackay, C. T., Sanderstead.
 Martin, D. C., London.
 Minett, E. A., Birmingham.
 Moss, M. C., Birmingham.
 Muller, C. S., Maidstone.
 Nichols, M. D., Sale.

Onraet, M. J. N., Worce
 Parker, D. N., Handfort
 Parkinson, K., Darwen.
 Phipps, R. A., Northolt I
 Powis, P. L., Maidstone.
 Rackstraw, A. J., High V
 Ratcliffe, A. R. G., Bans
 Roberts, M. E., Leeds.
 Robson, D., Manchester.
 Sapsed, P. C., London.
 Sly, J. R., Cobham.
 Smith, J. K., Leicester.
 Smith, R. J. A., West Br
 Snowden, N. F., Bacup.
 Stephens, R. E., Whitley
 Storey, J. N., Liverpool.
 Summerfield, J. H., Birn
 Thomas, D. H. H., Ilfor
 Toye, W. D. G., Kingst
 Waller, D. L., Derby.
 Walters, D. J., Taunton.
 Wasdell, D. C., Rednal.
 Weston, R. S., Greenfor
 Wheelton, N., Cleveleys
 Wilshire, B. C., Derby.
 Worsley, W. E., Greenfo
 Wright, J. M., Derby.
 Zivanaris, M., Hull.

82 Candidates passed.

115 Candidates failed.

Summary of Results

		Final	Intermediate	Preliminary	Tot
Candidates Successful ..	..	429	571	82	1,082
Candidates Failed ..	..	483	580	115	1,178
Candidates Sat ..	..	912	1,151	197	2,260

MOTOR — FIRE — CONSEQUENTIAL LOSS
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The Accountant

ESTABLISHED 1874

AUGUST 8TH, 1953

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CONTENTS

Leading Articles	<i>Page</i>
Capital for Investment Trusts	153
The Finance Act, 1953 - I	154
Twopence on the Cheque	156
Special Articles	
Goodwill in Consolidated or Group Accounts by <i>F. G. Beard, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S., of Durban</i>	157
North American Commentary - XLV by <i>Kenneth F. Byrd, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.), Professor of Accounting, McGill University, Montreal</i>	159
Thoughts on Becoming Qualified by <i>J. S. Ross</i>	161
Lecture	
Some Problems of the Chartered Accountant in Practice by <i>W. L. Barrows, F.C.A.</i>	163
Weekly Notes	171
Finance and Commerce	
Courtaulds Ltd - London Stadiums Ltd - John I. Thornycroft & Co Ltd - Money Market	173
Correspondence	
Accountants and Secretaries and Section 161 (1) (b) Companies Act, 1948 - Articled Clerks in Industry - Co-ordination of the Profession - The Accountancy of J. M. Keynes - Goodwill: Jeweller's Business - 'Down the Escalator Going Up'	176
Reviews	177
Notes and Notices	
Personal - Professional Notes - Obituary - In Parliament - Chartered Institute of Secretaries - The Association of Superannuation and Pension Funds - Professional Classes Aid Council - The Birmingham Chartered Accountant Students' Society - Accountants' Crossword: Solution - Insurance Statistics - Twenty-five Years Ago - Seventy-five Years Ago	178

CAPITAL FOR INVESTMENT TRUSTS

INVESTMENT trusts and unit trusts have hitherto been refused consent to the raising of capital by an amount exceeding £50,000 in any one year. This strict discrimination against them has now been relaxed. In a letter dated July 27th, 1953, to the chairman of the Capital Issues Committee, the CHANCELLOR OF THE EXCHEQUER expresses the opinion that the time has come for some departure from the previous rigid policy, having in mind the part played by investment trusts in the supply of risk-bearing capital for industry and the need to encourage savings at the present time. He therefore asks the Committee to feel free to recommend consent 'in appropriate cases' in respect of applications from investment trusts, including unit trusts. The terms of the letter were announced in a written parliamentary reply on July 29th.

What precisely is meant by 'appropriate cases' is not clear, but no doubt the phrase will be elaborated for the purposes of applying the new policy. Any issue by a trust can be said to encourage savings. Whether the trust would also have to undertake to invest the proceeds in ordinary shares or preference shares is not revealed, but if such a condition is attached the relaxation will be of considerably less importance for there is a limit to the amount that a trust can venture on such investments.

The mind is irresistibly drawn to speculation as to whether the CHANCELLOR's belated approval of investment trusts and unit trusts as risk-bearers is connected with the coming unloading of iron and steel shares on the market. The smooth and successful denationalization of road haulage will also involve the raising by haulage concerns of large amounts of capital. It may well be that the CHANCELLOR hopes to see investment and unit trusts playing a useful part in these processes.

How the trusts will react to their new freedom is a matter even more speculative. The existing right to raise up to £50,000 in one year, together with the right of unit trusts to reissue units up to the total number outstanding on May 12th, 1941 (when the restrictions were first imposed), may well be sufficient for the needs of many of them. Accordingly, the new relaxation is not likely to produce very striking results by itself. It is nevertheless to be welcomed as another, if very small, step in the direction of complete freedom. It also reduces the anomaly of a situation which allows insurance companies to collect and invest large sums in premiums, which are in effect savings, notwithstanding investment control and without applying for permission from anyone.

As far as the investment of private savings is concerned, the position of the two kinds of bodies is much the same.

THE FINANCE ACT, 1953—I

THE Finance Act, 1953, received the Royal Assent on July 31st. It emerged from Parliament with two sections additional to the ones contained in the Bill as first presented, but compared with last year's Act the changes were slight. The outstanding feature of the Act is that it reduces taxation, instead of increasing it. Let us hope that the next one goes a good deal further along the same road.

Part III of the Act, which deals with income-tax, profits tax, and excess profits levy, contains eighteen sections (12 to 29), but there is this time no schedule to deal with, beyond that which sets out the repeals.

Section 12: Rates of Tax

The standard rate of income-tax of 9s, last applied for 1950-51, is restored for 1953-54, but there is no corresponding increase in sur-tax rates. The Act goes out of its way to fix these for 1953-54, although as the sur-tax is not collectible until January 1955, the fixing of the rates could have been deferred until next year. It follows that for 1953-54 the maximum combined rate of income-tax and sur-tax is 19s instead of 19s 6d (Section 12 (1)).

The reduced rates of tax for individuals are each lowered by 6d, making the first £400 of taxable income chargeable as follows:

£100 at 2s 6d

£150 at 5s 0d

£150 at 7s 0d

£400

As usual, the reduced rate provision is expressed as a relief of a proportion of the standard rate. (Section 12 (2), amending the Income Tax Act, 1952, Section 220, and the Finance Act, 1952, Section 14). To give time for the production and distribution of the necessary new tax tables, the reduction was delayed until June 8th in the case of P.A.Y.E.; the resulting over-deductions of tax being adjusted on the pay-day following (Section 12 (3)).

Section 13: Sur-tax for 1952-53

Last year, the fixing of sur-tax rates for 1952-53

was left over. Section 13 now fixes them at the same amounts as for 1951-52.

Section 14: Personal Reliefs

The income limit for qualifying for full age relief is raised from £500 to £600, to make some allowance for the fall in the value of money since the £500 was first fixed many years ago. The corresponding marginal provisions are also amended. (Section 14 (1), amending the Income Tax Act, 1952, Section 211 (2) (3)).

The £26 earnings limit for apprentices etc., in respect of whom child relief is claimed, has been increased to £52 (Section 14 (2), amending the Income Tax Act, 1952, Section 212 (3) (b) and the Finance Act, 1952, Section 14 (4)).

The reliefs for housekeepers and dependent relatives are raised in each case from £50 to £60 and the maximum income for a dependent relative becomes £145 instead of £135 (Section 14 (3), amending the Income Tax Act, 1952, Sections 214 to 216, and 218, and the Finance Act, 1952, Section 14 (6)). It is worth observing that until 1952-53 the recipient of an income of as much as £145 could himself be liable to income-tax.

The relief in respect of a resident daughter whom the taxpayer maintains and upon whose services he is compelled to depend is increased from £25 to £40 (Section 14 (3), amending the Income Tax Act, 1952, Section 217).

As in the case of the reduced rates, these reductions in liability took effect, for P.A.Y.E. purposes, on June 8th (Section 14 (5)).

Section 15: Loss Set-off

Section 15 makes some changes in the rules for the set-off of a business loss against other income. These changes were dealt with in a leading article in our issue of May 2nd, under the sub-head 'Clause 13: Section 34 Relief'.

Section 16: Initial Allowances

Section 16 reintroduces initial allowances where, broadly speaking, the capital expenditure in question is actually incurred on or after Budget day (April 15th, 1953). To make it clear that the expenditure must actually have been incurred

after April 14th, 1953, Section 16 (4) provides that the following provisions of the Income Tax Act, 1952, are not to apply. Sections 265 (6), 279 (2) and 309 (1) of that Act provide that expenditure incurred by a person about to carry on a trade etc. is deemed to be incurred on the date of commencement. Section 277 (2), combined with Section 265 (4), provides that in certain circumstances expenditure on an industrial building, on which the old 'mills, factories' allowance continues to be claimed, is deemed to be incurred on April 6th following the last year for which that old allowance applies. The new Section 16 prevents expenditure in those cases from qualifying if it would not otherwise have qualified.

Expenditure on Ships

If the price of a ship becomes payable before April 15th, 1953, but delivery in accordance with the contract of sale takes place on or after that date, the expenditure qualifies (Section 16 (5)). Again, where the price of a ship is payable by instalments, some before and some on or after April 15th, all the instalments paid before that date are treated as paid on April 15th (*ibid.*). The subsection makes it clear that expenditure which in any case qualifies under the old law cannot also qualify under Section 16.

Rates of Initial Allowance

For machinery and plant the rate of initial allowance is now one-fifth instead of the two-fifths which applied formerly (Section 16 (2) amending the Income Tax Act, 1952, Section 279 (1)). Initial allowances in respect of mines, oil-wells, etc., under the Income Tax Act, 1952, Section 306, are to be two-fifths, instead of the former one-tenth of the expenditure (Section 16 (3)). For other assets the rate of allowance is as formerly. Initial allowances given by virtue of Section 16 apply to profits tax but not to excess profits levy (Section 16 (6)).

Section 17: New Classes of Industrial Buildings

A building or structure in use for the purposes of a trade which consists in the catching or taking of fish or shell fish is now treated as an industrial building for capital allowance purposes (Section 17 (1) extending the Income Tax Act, 1952, Section 271).

A building or structure used for the purposes of a trade which consists in husbandry or forestry on land abroad is also to qualify as an industrial building (Section 17 (2) extending the Income Tax Act, 1952, Section 271 (1) (e) (3)). Such a building is to be treated as though it was a building on a 'foreign plantation' as defined in Section 271. Thus pastoral farming in, say, South America will normally qualify. Husbandry is not defined: it is the subject of a good deal of case law.

The change wrought by Section 17 is not to affect years of assessment earlier than 1953-54 (Section 17 (3)). Nevertheless, for the purpose of computing the allowances (and charges) for that and subsequent years, it will be necessary to compute the 'residue of expenditure' by writing off sums from the original cost. Section 17 contemplates a writing off of one-fiftieth per annum of the original expenditure, under Section 268 (5) of the 1952 Act, even for the years 1946-47 to 1952-53, when annual allowances were in force but did not apply to the above buildings. It is necessary, therefore, to exclude the Income Tax Act, 1952, Section 268 (5), proviso (a), and this is done by Section 17 (3).

Section 17 extends to profits tax but not excess profits levy (Section 17 (4)).

Section 18: Repairs to Industrial Buildings

Industrial buildings allowances are tied to costs of construction. Repairs expenditure would normally be deductible in full in arriving at profit. Between these two types of expenditure there is a no man's land where expenditure is disallowed because, e.g. it is capital, but does not qualify for capital allowances. Section 18 (1) now requires that all disallowed repairs expenditure be treated as capital expenditure on the construction of the building; that is, on its construction for the first time. This introduces greater equity at the cost of increased complications in computing the allowances. It would seem that the expenditure need not be incurred wholly and exclusively for the purposes of the trade, provided it is expenditure on repairs to an industrial building.

Section 18 (1) is retrospective so that computations already made will have to be revised.

(To be continued.)

TWO PENCE ON THE CHEQUE

THAT remarkable commercial invention, the bill of exchange, originated centuries before it came into use in England; but the cheque, which has so largely taken its place in ordinary commercial use, we can claim as an English modification of a great original, and the last week has seen the centenary of the Act which made its remarkable development possible.

It had evolved into something very like its present form as the old private bankers had developed their business from the issue of notes to the deposit banking which is still their principal concern; but until 1853 the bill of exchange payable on demand (which includes the cheque) had borne *ad valorem* stamp duty and the cheque was still comparatively little used. The Stamp Act of that year, which received the Royal Assent on August 4th, 1853, reduced the stamp duty on demand bills to a uniform penny; and if the cheque is given anything like its proper significance in our modern monetary arrangements, the Act which made it popular must be regarded as a most important one.

The bankers of the time appreciated that some increase in cheque business would follow the passing of the Act, and they secured the inclusion in it of a section which protected them against the danger of forged endorsements, a protection eventually incorporated in the Bills of Exchange Act of 1882. But it is most unlikely that anyone in 1853, banker or layman, had any idea of the eventual extent of the increase. In 1952 the English clearing system handled 335 million items, the overwhelming majority of them cheques, to a total value of £111 thousand million. The economist must be left to estimate how much 'real' money would be needed to replace these cheques; but it would obviously be a very considerable amount.

The cheque habit suits the English character, and is still increasing: there is a growing readiness among shopkeepers to accept cheques from strangers in payment for purchases, and cheques are regularly taken in settlement of much larger transactions without the full inquiry into the drawer's standing which a purely cynical common sense would call for. We may take some pride in this fact; for a willingness to accept one's fellow citizen's signature as being 'as good as gold'

argues in any community a highly developed instinct for credit which is in itself creditable.

Important as good faith must be in the use of the cheque, it requires to be founded on an efficient mechanical method of obtaining payment; and the clearing system must take a good share of the credit for the development of the cheque in this country. It often comes as a surprise to the Englishman to discover that in the United States, for instance, a cheque drawn on another town, even in the same state, may take longer than three days to clear, sometimes much longer, and that there may in some cases be a deduction of a small percentage clearing charge. It is easy to take the efficiency of our own clearing for granted until we look beyond our own borders.

When we are celebrating the centenary of the Stamp Act it is appropriate to recognize too that the impressed stamp on our cheque has itself worked, with the English character and the efficiency of the clearing, to make the cheque as fully efficient as it is. We are all familiar with the warnings that appear in our cheque books, to keep them safe, lest they fall into criminal hands; and it is obvious that this jealous protection of the cheque has helped to make its possession in itself a *prima facie* proof of honesty. But in other countries which have no duty, or which use adhesive rather than impressed stamps on cheques, there has evolved no such protective instinct, and cheques are often as freely available, in boxes on the bank counter, as the more innocuous credit-slips. It would seem that it was the very small intrinsic value of the blank cheque rather than its great potential danger in the wrongdoer's hand which first set our bankers guarding it closely.

The penny duty imposed in 1853 was increased to twopence in 1918 – and the banks still have to assure some of their customers that all the duty goes to the Government; that they issue the cheques 'free'. How far from free the cheque is when costed against the quarterly charges is a matter which varies from account to account; but at least the 'twopence on the cheque' has not been increased amongst all the welter of rises that has followed the Second World War. There are not many prices which have gone up only once in the past century.

GOODWILL IN CONSOLIDATED OR GROUP ACCOUNTS

A South African Accountant Pleads for Much Fuller Disclosure

by F. G. BEARD, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S., of Durban

Introductory

AT the outset I make no apology for the use of the bald term 'goodwill' instead of the somewhat involved and much more widely-used descriptions, such as 'excess of cost of shares in subsidiary companies over the net book values of assets as at dates of acquisition', 'net premiums on shares acquired in subsidiary companies', etc.

Although I have yet to see a consolidated balance sheet published in South Africa using the term 'goodwill' to describe this excess cost (holding company directors here shy from this term like frightened horses), it is not unusual to find this intangible asset described as such in the United Kingdom. I have before me as I write the latest consolidated accounts of the Dunlop group of companies (and their accounts have long set a standard) in which this excess cost is boldly reflected as goodwill.

Secondly, the South African Companies Act, in so far as consolidated accounts are concerned, is almost a word-for-word replica of the English Act. Holding companies in South Africa, therefore, have the same statutory obligations regarding presentation of consolidated accounts as do holding companies in the United Kingdom. One of the few deviations, as a matter of interest, is that our Act does not allow holding companies to submit a consolidated profit and loss account only in accordance with Section 149 (5) of the English Act. Our Company Law Commission was of the firm opinion, and recommended accordingly, that in all cases a company should publish its own separate profit and loss account in addition to any group accounts that may be necessary.

Post-war Spate of Holding Company Flotations in South Africa

During the period of scarcity of raw materials and consumer goods – coupled with its inevitable concomitant, excess of purchasing power – in the years immediately succeeding the Second World War, a large number of holding companies were floated in South Africa, most of them purchasing the shares of companies which had been established for some time and which had imposing profit histories during the war years.

Some of the prices paid for these shares were fantastic and many of the prices paid were excessive, but money was plentiful at the time and the promoters experienced no difficulty in raising the capital required. Admittedly, sworn valuations were obtained in support of the prices paid, but the Cohen Committee, in strongly recommending that auditors should be required to report on the assets and liabilities in a prospectus notwithstanding the valuations obtained, stated that

'such valuations, however honestly made, are liable to wide margins' of difference according as to whether the valuer takes an optimistic or pessimistic view of the earning power of the business'.

At that time, of course, the large profits which were made due to the existence of a strong sellers' market induced a feeling of super-optimism on all sides. No doubt the same position was to be found in the United Kingdom during that period. Incidentally, it is significant that sworn valuations are based on the earning power of the business and not on the intrinsic value of the assets themselves. This clearly shows that the difference between a sworn valuation and book value is really a premium for super-profits and not, as is generally believed, an enhancement in value *qua* value.

Reluctance of Holding Company Directors to Disclose Goodwill

In South Africa, I regret to say, the directors of many holding companies appear to be extremely reluctant to disclose to shareholders the amount of goodwill paid for the shares in subsidiary companies and some of them go to inordinate lengths to disguise or mask this excess cost. Showing the assets 'at sworn valuation' or even 'at directors' valuation' in the consolidated balance sheet is often encountered. I have seen the goodwill neatly hidden in the consolidated balance sheet of a holding company owning the shares in several mining companies as follows:

'MINING PROPERTIES – at cost

(including the cost of acquisition of shares in subsidiary companies).

Shareholders, of course, are quite unable to ascertain the correct position of the group as a whole. This reluctance to disclose the goodwill

was apparently also encountered by the Cohen Committee in the United Kingdom, as their report stated:

"There is still a considerable number of holding companies which fail to give shareholders the information necessary to enable them to form an adequate view of their interests."

Shareholders entitled to Fullest Disclosure

Even if the goodwill is disclosed in the consolidated balance sheet, I venture to assert that shareholders are entitled to much fuller disclosure than a bare total. They are entitled to know the purchase price of the shares, the nominal value thereof, the amount of the pre-acquisition reserves and profits and whether any of the assets have been written-up or are shown at values in excess of book values. Furthermore, the goodwill being really a premium paid for super-profits, it should be a first charge against future super-profits and written-down from year to year, i.e. by writing-down the investment accounts in the books of the holding company.

Unfortunately, however, no provision is made in the Companies Act for such full disclosure; in fact, paragraph 17 of the Eighth Schedule, by leaving the adjustments in the consolidated accounts to the unfettered discretion of the directors, is an open invitation to disguise or mask the goodwill. It has been argued that these adjustments obviously refer to the necessary elimination of inter-company indebtedness and inter-company profits – to which I must reply that the paragraph should say so and not afford unscrupulous directors this loophole.

Suggested Amendments to Act

I have the temerity, therefore, to set out a suggested new draft paragraph 17, together with an additional paragraph designed to ensure that shareholders of holding companies receive the fullest information regarding the goodwill paid for shares in subsidiary companies. Here they are:

'Paragraph 17. Subject to the following paragraphs of this Part of this Schedule, the consolidated balance sheet and profit and loss account shall combine the information contained in the separate balance sheets and profit and loss accounts of the holding company and of the subsidiaries dealt with by the consolidated accounts, *but with all inter-company indebtedness and all inter-company profits eliminated and such other adjustments, if any, as the auditors may approve.*

'Paragraph 17bis. Every consolidated balance sheet prepared in accordance with the preceding paragraph must show, *inter alia*, the following information:

- (a) the purchase price of the shares in the subsidiary,
- (b) the nominal value thereof,
- (c) the difference between (a) and (b) as gross excess cost.
- As deduction from (c):
- (d) the amount of pre-acquisition reserves and/or profits
- (e) if any of the assets have been written-up in the books of the subsidiary or are shown at valuations in excess of book values in the consolidated balance sheet – the amount of such write-up or excess value and the reason or reasons for so doing,
- (f) the amount, if any, of the holding company's reserves and/or profits utilized to write-down the investment account or utilized to create an investment reserve in the books of the holding company.

'With regard to the balance (if any) how the directors propose dealing therewith.

'Note. – If there is more than one subsidiary, the information required under (a), (b), (c), (d), (e) and (f) should be shown in total and the details in respect of each separate subsidiary shown on a schedule attached to and forming part of the consolidated balance sheet.'

This is how the goodwill will then be reflected (using purely hypothetical figures and assuming that there is only one subsidiary):

Goodwill

(Premium paid on shares in subsidiary company).

Purchase price of these shares	£ 300,000
Less nominal value thereof	100,000
Gross excess cost	200,000
Less pre-acquisition profits	100,000

Net excess cost 100,000

Less amount by which plant and machinery has been written-up in books of subsidiary (depreciation at 20 per cent per annum on original cost considered excessive – adjusted to 15 per cent per annum on diminishing balance) .. 10,000

90,000
Less amount of holding company's profits utilized to write-down investment account .. 50,000

Balance still to be written-off out of future profits £40,000

There is, I submit, another loophole in the Act which should also be closed. Section 151 (2) of the English Act (which is *90quin* (1) of the South African Act) lays down that separate accounts dealing with each of the subsidiaries can be published in lieu of group accounts. One group here in South Africa, determined not to show the excessive goodwill paid for the shares in subsidiary companies, published separate balance sheets and profit and loss accounts for the holding company and for every subsidiary – relying upon the fact that very few shareholders

are capable of comparing the investment in each subsidiary with the value of the net assets of that subsidiary. Even if they were capable of doing this, they could not ascertain the equity of each subsidiary at the date of acquisition of the shares by the holding company.

Conclusion

Finally, in case readers consider that all this

additional information will only confuse shareholders, allow me to quote from the report of the Company Law Amendment Enquiry Commission in South Africa. Under Part VIII, Accounts and Directors' Reports, the following appears:

'It has been objected that the more elaborate the accounts are made the less likely it is that shareholders will be able to understand them. We believe this to be the exact opposite of the truth.'

NORTH AMERICAN COMMENTARY—XLV

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
Professor of Accounting, McGill University, Montreal.

Journal of Accountancy,
New York, June.

Loss to the Accountancy Profession

NORTH AMERICA has lost one of its outstanding accountants by the death of Colonel Robert H. Montgomery. To American students, Montgomery's *Auditing* is the standard book on the subject, having established its reputation over the years since its appearance as the first purely American auditing text-book, in 1912. Until then Montgomery's adaptation of *Dicksee* was used. Since 1899 Colonel Montgomery has been an active leader of the accountancy profession in the United States. In its final tribute the editorial says he has left an imprint on American accounting that will never be erased.

A Single Court of Tax Appeals

Judge Walter L. Pope, of the United States Court of Appeals for the Ninth Circuit, has pointed out that decisions of the nation-wide Tax Court are reviewed by eleven different courts of appeal with results which often conflict. The slow process of the United States Supreme Court is the only means of resolving the conflicts, and the average period from taxable year of dispute to Supreme Court decision is quoted as nine years. The editorial thinks the accounting profession will support Judge Pope's proposal for a single court of tax appeals.

Big Business in Accountancy

The editorial comments on an article by Professor Thomas W. Byrnes, Associate Professor Emeritus of Columbia University, in the April *Accounting Review*. Professor Byrnes divided the profession

into two schools, only the smaller of which adopts, he says, 'the professional attitude of giving personal attention to the client's problems'. He accused the other school of having big business as its aim, in which case 'all pretence to professional rating should be dropped'. The editorial points out that the demand for big accounting firms has developed from big business in the United States. Association of large numbers of accountants in public accounting firms permits, it says, intensive specialization and efficient division of labour. If a large accounting firm does not serve its clients well it is unlikely to survive, just as with a small firm. It would be unfortunate, says the editorial, if the development of the accounting profession were retarded by emotional prejudice against bigness.

Much Talk about LIFO

Mr Maurice Moonitz, C.P.A., PH.D., Associate Professor of Accounting at the University of California, writes strongly against continuance of the use of LIFO, claiming that there is a rising tide of opposition to its inclusion in generally accepted accounting principles. He charges that it is primarily a device for reducing or deferring the amount of income-tax payable and not for measuring business income. He regrets that it seems more than possible that practitioners of LIFO may soon be given the right, for tax purposes, to adopt LIFO cost or market, thus increasing its popularity. Professor Moonitz calls for a 'declaration of independence by the profession from the exigencies of income taxation as the arbiter of business income'. Mr H. T. McAnley, C.P.A., vigorously opposes most of Professor Moonitz's statements. He suggests that distortion of the balance sheet position may be corrected

by drawing up the balance sheet with all assets at current values, while on the liabilities side will be set up reserves to prevent impairment of capital, covering inventory cost increase and accumulated depreciation, respectively. This seems, indeed, a very practical way of showing inventory at current values, while achieving one essential LIFO object, the conservation of capital.

*The Controller,
New York, June*

C.P.A.s on Internal Revenue Advisory Committee

The formation of an advisory committee for Internal Revenue Bureau tax administration has been announced. It includes three members each, of the American Bar Association, the American Institute of Accountants and the Tax Executives Institute.

*The Canadian Chartered Accountant,
Toronto, June*

Pensions for the Self-employed

A statement by the Dominion Minister of Finance sets out his reasons for rejecting requests by professional groups for amendment of the Income Tax Act to allow a deduction for income-tax of pension contributions by self-employed professional persons. The Minister is afraid that the savings of Canadians would be directed away from equities into debt securities. Why, he asks, should one form of saving be singled out for tax postponement? He requests the legal and accounting professions to submit his statement to close critical analysis. The editorial welcomes this invitation, saying it will certainly be accepted.

Taxable Income and Accounting Principles

In their joint representations on taxation to the Dominion Minister of Finance, the Canadian Institute of Chartered Accountants and the Canadian Bar Association recommended that the ascertainment of business income be left to be determined by well-recognized accounting principles. The editorial comments that this recommendation has gone unheeded and the Act is to contain 'a long and complicated enactment governing an important part of the method of computing business profits'. It says that greater reliance is placed on the accounting profession in almost every other country in the English-speaking world than in Canada.

Recruitment and Training for the Profession

A special committee of the Canadian Institute is investigating the whole question of recruitment and training. It is issuing a questionnaire to all accounting students, aimed at ascertaining their attitude towards various aspects of the present training programme and to the profession generally.

Administrative Accounting Tendencies

Mr Lorn McClean, C.A., president of the Canadian Institute of Chartered Accountants, speaks of today's development towards speedy and frequent accounting reports, monthly reports having to be in harmony with annual reports which must be supported by the opinion of public accountants. He remarks that in Canada, full recognition of this development has still to come. Accounting staffs in businesses must be trained, he says, to detect an accounting problem and discuss it with the auditor, to ensure that it will be acceptable in the year-end accounting. The scrutiny of internal controls is becoming more and more important for the public accountant, whose approach is likely, Mr McClean considers, to become more philosophical and imaginative.

*Cost and Management,
Hamilton, June*

The Education of Cost Accountants

The Society of Industrial and Cost Accountants is establishing an educational foundation to plan, direct and extend its educational research programme. Application for Incorporation has been approved and Letters Patent issued. The designation R.I.A., registered industrial accountant, is authorized by government legislation in each of the ten provinces, says the editorial. Correspondence courses are prescribed and also twenty universities across Canada offer evening lecture courses. The educational foundation will be financed by voluntary contributions from business men and administered by a board of trustees drawn from leading business men. The foundation will encourage the use of advanced techniques in cost accounting and business administration, its work being directed along five main lines: general accounting, cost accounting, business mathematics, industrial legislation, industrial organization and management. The research in each subject will be under a specialist in his field, the results being written into the R.I.A. courses, with ultimate expression in business practice.

THOUGHTS ON BECOMING QUALIFIED

by J. S. ROSS

An unsuccessful candidate in the examinations held recently discovers some reasons for persevering. He has studied authoritative views on the qualities required in an accountant, and wonders whether they are in reach of 'a mere plodder'.

The Value of Qualifications

HERE is a period between the date of examinations and the announcement of the results when a candidate must save himself from an intention to chuck accountancy rather than endure the ordeal again. In that interval the highest functions of the profession assume a novel importance: they encourage him to go on; for he, in time, will surely take part in them; he will have the power to curb the improvident adventurers who manage British industry. The question, 'What shall I do if I qualify?' takes on the character of a meditation.

A young aspirant is now presented with a grave issue. Though the opposing principles have been put forward with great authority, no settlement can be reached except in the way he himself decides to act. A president of the Institute has declared that

'The authoritative guidance which it is hoped to provide on management accounting will . . . be of much greater value than the diploma of any other organization.'

This view has been vigorously opposed by many accountants who hold that other qualifications, based on a syllabus including the practical aspects of management, enhance their ability to act in an advisory capacity.

I originally resolved to qualify in order to learn the principles of management accountancy, a subject which I deferred until the last week of revision. The examination, which I once thought of with respect, now appears as a hedge through which a candidate must crawl in his quest of respectability! What can be said of examinations as a test of proficiency? Is a second qualification a sufficient reward for the trouble of delving into text-books having once obtained membership of the Institute?

Quickness, clarity and accuracy are acquired in the period of articles, and they are evinced by an examination; yet, if it is accepted that these qualities are sufficient in an accountant, there is a very serious danger that articles will deteriorate into a mere apprenticeship. Seldom, as in an examination, is there a ready answer and a mistake as its alternative. Is there a criterion other than personal reputation?

The Standard of Proficiency

To consider wherein consists the professional skill of an accountant does not avail without a vivid conception of the task before him. What is that task? It may be seen more readily in relation to the growth of the profession, which has proceeded in three distinct stages. In the first it was sufficient to keep a record of transactions; in the second it became an accountant's duty to present the true significance of the balance sheet and profit and loss account; in the present stage it is his endeavour to control the expenditure, finances and output of an industry.

How far have accountants succeeded?

Little significance is attached to general criticisms of a profession, except that a comparison may indicate a new course of study and practice. Such a comparison is available – the Productivity Team Report on Management Accounting¹, in which it was said:

'The effectiveness of American management and accounting rests not on technical superiority but on their thorough application of techniques which are as well known in Britain as they are in the United States. . . . Given the will and the sense of urgency, there are no valid reasons why British management and accountants should not be as effective.'

In view of this criticism, of a failure in the *application* of techniques that are already known, to seek special qualifications may well appear as a tedious digression: it is through qualities of mind – 'will and the sense of urgency' – that the failure is to be made good.

The Application of Principles

Accountancy is among the professions whose function allows no claim to great discoveries or inventions. Its achievement is particular to each member, and each case. It is awe-inspiring to realize that *every* accountant may have to assume the part which, in other callings, is left to a solitary genius: a modest practitioner he may be, but he must none the less apply the principles of his science to cases which may be utterly unlike anything he has encountered before. The details of the system which he ultimately puts together are seldom *all of a piece* when he

¹ British Productivity Council, London, 2s net.

draws on his experience. At first he may not even think himself capable of making a recommendation; but the very tentativeness of his approach would free him from the danger of enforcing illustrations from text-books where they are inapt.

The faculty of reasoning is independent of knowledge. It begins with an imaginative insight into the cares of a manager – a perception of the figures which would answer questions indefinitely formed, of the sources from which they come, and the channels along which they flow. To design a method of management accounting is the *final* stage in an investigation, except in the case of those who rely wholly on a classified knowledge – with what a cost in broken confidence!

Specialization in Accountancy

Editors, publishers and casting directors ignore the qualifications of those whom they employ. They look for originality. Hospital management committees, on the other hand, require special qualifications of doctors who treat any but the less deserving cases. To what extent does the nature of accountancy justify a division among specialists, apart from that which partners find convenient? It is at once evident that the subjects which are classified for the sake of examiners and tutors are seldom distinct in practice. The principles of 'management accounting' are not easily identifiable as costing principles. Accounting procedures are integral. It is not always easy to perceive at what point an accountant must assume the humility that is requisite as he enters the domain of a specialist.

I can have no opinion as to whether the Final examination is an adequate qualification in management accountancy: I can only represent that there is cause for grave concern if it is not accepted as the final qualification in a province which the Institute has made its own.

It may be due to an indolence of nature that I tend to stress the value of qualities that are acquired without much effort. An accountant must have a flair and a sensitivity, transcending his arithmetical agility. Are these gifts of nature? Are they learnt? Can they be imparted? The answer is, I think, particular to each firm. It is not evident from day to day that one is trying to follow the thoughts of one's principal, taking from him a sense of integrity not only as to the truth of his certificate but to the theoretical consistency of accounting methods taken as a whole. Moreover, the confidential relationship between a principal and his client is one into which an articled clerk may be permitted to

enter by degrees himself, gaining therefrom an extending sympathy with managers, staff and work-people – not to mention the old-fashioned book-keeper who wonders what advantage accountants can see in using one piece of paper where two would do just as well!

The Character of a Profession

Throughout this solemn procedure one's natural self endures. The collegiate life, unfortunately, is not open to students of accountancy: they add little to the conviviality of London Town. Is it not true to say that the least regarded phase of an accountant's training – the activity of the student's society – has most to contribute to the character and influence of the profession? Out of one's craving for self-expression, one's earnest conviction, for instance, that the permanence of the marriage tie is not in keeping with whatever the more advanced sociologists are saying about sex, there emerges a corporate sense among a few; but what a pity that one cannot enjoy the society of those who have that most endearing of English idiosyncracies – a tendency to avoid meetings!

When one is enjoying oneself it is laborious to consider one's advantage. But in this place it is appropriate to regret how many good ideas are ignored because they are not expressed as brightly as they are visualized. A recommendation must be given a good performance, if it is not to be lost in the post, or run all the hazards of sheer irrelevance on the part of those who are too busy to give it their attention.

Knowledge alone does not lend character to a profession. Qualifications cannot take account of all in human nature that leads to the question: 'What do you think about our system; do you think that it could be improved?'

Lest I seem to decry qualifications (which I do not possess) let me say that I am, rather, concerned to stress the value of facilities from which I have had so much benefit. I have, moreover, written of a syllabus as it is at present. Nothing which has the sanction of the Institute is to be received as an unalterable dogma, which can be answered only with an heresy. I can only put it as a matter for reflection that a time should be set apart for practice in the *application* of principles. Given certain facts let a student draft a report, and a recommendation arising therefrom – provided that a time can be set aside. In few professions are the activities of students brought into profit and loss accounts. If accountants have too much to learn they may reasonably claim to be free to attend a school during their period of training.

SOME PROBLEMS OF THE CHARTERED ACCOUNTANT IN PRACTICE

by W. L. BARROWS, F.C.A.

INTRODUCTION

1. When I was asked to give a paper at the summer course this year, I thought that it would be a good idea to approach the problems of the chartered accountant in practice in a slightly different way from that adopted at previous courses. Previous speakers have usually dealt with one or more of the aspects of an accountant's work and have described the fields in which his technical skill is employed. I would like, on the other hand, to discuss in this paper, not the work of the chartered accountant in practice and its related problems, but the background against which that work is done, the framework in which the practice is carried on, and the problems that arise from these aspects.

2. It is obvious that in presenting a paper of this kind I have had to draw upon my own personal experience and my own knowledge of the profession as seen since I qualified in 1929. It may be, therefore, that the ideas which I will put forward and the opinions which I will express will excite controversy from those whose experience has been different from mine and who have seen the profession from a different aspect. I certainly hope that this will be the case so that ample material will arise for discussion by the various groups. It is perhaps hardly necessary for me to add that the opinions which I express are my personal views only.

3. Like all other enterprises in which one or more individuals are engaged to earn their livelihood, an accountant's practice is a separate business entity which exists in the midst of other such entities. It has internal problems of its own which must be resolved by putting the relations between partners amongst themselves and partners and staff on a proper basis, and external problems which must be resolved by adopting the right attitude in relations with the outside world. I have therefore planned my paper on the lines indicated by this broad classification under the following headings:

The firm as a unit.

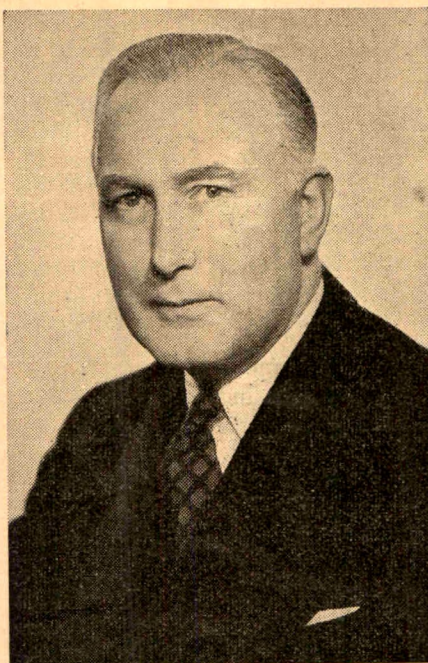
The firm and its staff.

The firm and the outside world.

Internal problems.

Relations with the rest of the profession.

4. Before dealing with these headings in any detail,



Lafayette Ltd

Mr W. L. Barrows, F.C.A.

I ought to say a few words on the subject of what an accountant may expect to obtain from his life in practice. Compared with what a business man of equal calibre might expect in other spheres, the successful practising accountant's material rewards are, I think, comparatively modest. I should say as a broad generalization that the material rewards are within a range which is, more or less, adequate in the particular case, but I should hardly say that the profession of a practising accountant is the high road to wealth. Side by side with this, however, there are other rewards which make our occupation, in my opinion, a peculiarly satisfying one. The feeling that clients look to you to help them in their problems and respect you for your knowledge and ability in doing so is itself to be regarded as one of the major rewards of

professional life. So is the respect, if you are able to obtain it, of fellow members of the profession, not only for the ability which you might be able to display, but also for your general conduct in professional life. These, I think, are some of the factors which make most of us feel that the way which we have chosen to gain our livelihood is far and away better than any other which we might have chosen and this feeling in itself is one which makes a great contribution to our personal happiness.

5. While this paper is, by its very nature, bound to appeal more to the members of this course who are in practice or in a practising accountant's office, I hope it will not be without interest to those members who are in industry. In my talks with members of our profession in industry, some of whom occupy very important positions, I have repeatedly heard stressed the value of a professional training and of experience in a professional office generally for the work which accountants are called upon to do in commerce and industry. In view of this, the problems

An address delivered on July 11th, 1953, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

of professional offices discussed in this paper will, I hope, excite comment and discussion from industrial members also, who must at one time all have worked in such an office and known something of its problems.

6. One of the matters which might well be considered in the discussion groups, particularly by those employed in industry, is the extent to which professional ethics can be maintained by members in industry. Situations do arise when a member may be placed in an embarrassing position for having pursued the course which he considers right. It has been put forward on many occasions that the Institute should support members in industry when they take up a strong attitude towards their employers. I wonder how this could be accomplished?

THE FIRM AS A UNIT Relations Between Partners

7. The first point which I want to discuss here is that of relations between partners. I think that, broadly speaking, some firms are carried on in a manner where each partner virtually runs a separate concern, his own firm within the firm, and where, therefore, there is little contact between him and the other partners and between their respective staffs. Other firms, and I think these must be in a vast majority, operate as a single unit where the work is shared between the different partners and is dealt with by one unified staff. My personal preference is for this latter method, but no doubt it is a matter of personal adjustment. Frequent consultations between partners are vital, particularly in relation to important work such as prospectus reports. The essential thing for relations between the partners is that there should be complete understanding between them and confidence in their relations with one another. Inevitably, in any given firm, some of the partners will be more experienced and more influential than others, and the importance of good relations between them, both for their own sakes and for the sake of the firm's efficiency, cannot be overrated.

Goodwill

8. My next point is the question of partnership goodwill, which to my mind raises major problems for the profession as a whole. On the one hand, the profession ought to be so organized as to enable young men of ability who wish to go into practice, to do so, while on the other hand, it must be so organized as to allow those who have lived and worked in it throughout their lives to enjoy the rewards of their work in their retirement. In the past I think that the organization of the profession did provide for these two major requirements. The incoming partner was expected to pay a more or less substantial sum for goodwill and in the past it was not too difficult for a man of average ability to save out of his income a sum sufficient to gain him a foothold in the profession. Some who had no capital to start with were able to borrow a sufficient sum and to

repay it out of their subsequent earnings as partners. Similarly, it was not too difficult for the continuing partners in the firm to pay a fairly substantial sum to a retiring partner or to the estate of a deceased partner. Practising accountants, as they attained more advanced ages, naturally counted upon the receipt of such capital sum as being the provision for their own retirement and for their dependants. The continuing partners, having acquired the outgoing partner's share, were able to save sufficient out of their additional incomes to liquidate the capital payment which they had to make to the outgoing partner. This I think was, broadly speaking, the basis on which most professional partnerships were organized and I should have said that the system worked fairly well for both parties, but I certainly have come to the conclusion that in today's conditions this system has to be abandoned.

9. Curiously enough, I think that it is the large firms, rather than the small, which have adapted themselves to the change more quickly. The difficulties, both for an incoming partner and for the continuing partners in the existing partnership, of raising a substantial capital sum are now so great as to be almost insuperable and, as is well known, the opportunities for personal saving have, in recent years, been removed. A continuance of the old system would, therefore, in the case of the large firms where the values of goodwill are correspondingly greater, have made it impossible for those firms to ensure a continuity of partners of the necessary ability. It would also have made it impossible for the partners in those firms to have any reasonable prospect of making provision for their retirement. These remarks are strengthened when it is remembered that, as a result of inflation, the amount of working capital required for a practice of a given size has increased considerably in the last ten years or so. This, in itself, and without any question of goodwill arising, has necessitated the introduction of more capital into many firms.

10. Various systems have been devised to meet this difficulty. The common features are usually that the capital value of goodwill is eliminated or reduced to a nominal sum, and that instead, payments out of income by the continuing partners to the retiring partner, or by the incoming partner to the existing partners, are required. The merits of such schemes are that they make such payments eligible for taxation relief so far as the payer is concerned, while they provide for the retiring partner or for his dependants something akin to a pension. Obviously, schemes of this kind are capable of wide variation. Their preparation requires great care, particularly so far as estate duty is concerned, as quite minor variations in wording may affect not only the amount of liability, but also its incidence. As regards income-tax and surtax, it is important so to word the agreement that the income payments are not given the character of capital sums.

11. Such schemes also provide, sometimes, for the

equivalent of a pension to be paid to a partner, or to his dependants, in the event of death or permanent incapacity at an age earlier than that at which he would normally have retired from the firm. This seems to me to be an important provision, of particular importance to younger men with a family.

12. A glance at the advertisement columns of *The Accountant*, however, shows that the practice of asking for lump sums for goodwill, amounting to as much as twice or three times the annual gross fees, is far from dead, and this is particularly the case with the smaller provincial practices. Probably this reflects the fact, which to my mind is indisputable, that it is more difficult than ever before to 'start from scratch', i.e. to put up a brass plate somewhere and build up a practice. Young members are therefore still prepared, apparently, to encumber themselves financially for the sake of practising, but I fear that a continuance of this state of affairs will lead to an intensified flow of the best brains in our profession towards industry, where the material rewards can be higher than those of the practising accountant, and where good pension benefits are usually available, and no capital is necessary.

13. I realize, of course, that there is no easy answer to this problem, but am sure that the practising side of the profession should, for its own sake, seek to find one. What has been said will, no doubt, need amendment in the light of the Tucker Committee report when received.

Office Accounts

14. Turning now to a different point, I think one important matter in connection with relations between the partners of a firm is concerned with the office accounts and here there is, I think, much to be said, as indeed there is with every other concern, for having these prepared as rapidly as possible after the end of the financial year.

15. One of the main reasons for delay, I believe, is the difficulty of valuing work in progress, particularly where the method is to value this on a basis related to the full amount subsequently billed. My own view is, that this latter method is fundamentally misconceived and open to error. One such error is that the accounts may fail to make provision for the cost of work still to be carried out on work in progress which has been included at its full bill value. Quite apart from the risk of error, however, I believe that delay is avoided and a more accurate

firm than good relations with its staff and amongst the staff themselves. This is particularly so in an accountant's practice where at no stage of the work is there a satisfactory substitute for individual ability and care. It is, of course, possible to devise all manner of systems for making an office more efficient and for standardizing procedures, but when all this has been done the firm remains largely dependent on the individual skill of those who work in it.

Recruitment and Responsibility

18. The first problem, therefore, is to recruit staff of the right calibre and of the right type for each phase of the work. This, in itself, raises a host of difficulties and I imagine that opinions will differ widely as to the type of staff most suitable. I must say that I have not yet myself arrived at a satisfactory conclusion on this point. For example, where is the dividing line to be drawn between the employment of qualified and unqualified staff on audit work? Is it safe to leave work of a routine nature to comparatively unskilled personnel? Should taxation work invariably be dealt with by a specialized section of the staff or is there a better case for having it spread widely throughout the office? How far is it possible and safe for a principal to delegate his responsibility? This latter question is particularly important because in these days there is an increasing tendency for the principal's time to be taken up by meetings with clients or with other people on clients' behalf, thus restricting the time which he can devote to the routine procedures of his office. It is, in my opinion, most desirable, for a firm of any size, to have laid down standard procedures for the staff on work of a routine nature.

19. In my experience, senior members of the staff prefer to be left with a large measure of responsibility for their own work, and this itself helps to ease the burden which will still fall on the principals. It is also helpful if senior members of the staff are of such calibre that clients are satisfied to deal with most routine, and perhaps even some specialized matters, direct with them, without referring every small point to one of the partners. In order to make it an economic proposition to employ staff of this calibre the firm's practice must, of course, be a fairly widespread one, and in a small firm the problems which I have outlined may not exist. The small practitioner, however, must be faced with the very difficult problem of how to bear the responsibility falling upon him and, at the

regarding the establishment of such a scheme to cover the profession as a whole, but such a proposal, while it would help to solve the retirement problems of the smaller firms, and relieve many other firms of administrative trouble and inconvenience, might be expected to raise difficulties in other directions by withdrawing from the individual firms the discretion which they, at present, have as to retirement benefits, particularly in cases of hardship.

22. I believe quite a substantial number of firms already have pension schemes of their own, and where it is practicable to do so, I think that it is also advantageous from the point of view of the firm. A pension scheme enables partners to feel some certainty that when members of the staff remain in the firm's service until they retire they will not be dependent on *ex gratia* payments to supplement their income over and above the state pension. If they die while in the firm's service their families will receive at least some life assurance benefit and would not be wholly dependent on voluntary assistance.

23. From the point of view of the staff, the advantages of a pension scheme and life-assurance scheme are probably fairly obvious. In the case of the younger members a pension scheme is regarded as a means of making personal savings with some additional tax benefit, because at those ages the prospect of a pension or even the prospect of needing one is probably too remote to be much of an incentive. Then again, among younger members of the staff a long period of service with a given firm is not generally envisaged, but they feel that if and when they do leave the firm's service, the return of the contributions will provide financial assistance in their change-over to other work. In practice there are few members of pension schemes who, when leaving the firm's service at a fairly young age, exercise their option to have their benefits in the form of a paid-up pension at retirement date.

24. This attitude of younger men towards pension schemes does not seem to me to be unreasonable when it is remembered that these schemes are usually so constructed, that the employer's contribution is a small one in the younger age groups and does not substantially add to the benefit until the later age groups are attained. The older members of the staff, of course, regard the pension scheme genuinely as affording provision for their retirement, and in their case the firm's contribution does make a substantial difference, particularly where past service pensions have been bought. This fact, I think, acts as a discouragement to leaving in the case of the older employees.

25. The above remarks refer to a contributory scheme, but I believe that some employers consider it preferable that a pension scheme should be non-contributory on the grounds, partly, that such a scheme causes less administrative work and that employees cannot regard it merely as a means of making relatively tax-free savings.

26. In my experience I have found that one of the

most useful features of such a pension scheme is that it affords opportunity to accumulate funds in the hands of the trustees, which are available to deal immediately with specially hard cases at the time they arise. The accumulation arises from the excess of the firm's contributions to the trustees over and above the employer's premiums paid by the trustees and from the surrender values of employer's premiums the benefit of which is forfeited by employees who have voluntarily left.

27. My references to pension schemes are written without, of course, any knowledge as to what the second Tucker Committee may recommend in relation to employees and what will be the result of the inquiry by the Council of the Institute directed at the annual general meeting in 1952.

Loss of Staff

28. In dealing above with pension schemes, I have touched on the fact that the younger members of the staff, and particularly those who are qualified, do not necessarily envisage staying with the same firm for any great length of time. A number will become partners in other firms or start practices of their own. A large proportion of them will, in any case, wish to go into industry after a time, either because they believe this field holds more interest for them or because of financial considerations. In this connection, the practising accountant is often faced with the fact that members of his staff are offered attractive positions by his own clients. I think the duty of the employer in such cases and also his self-interest is to adopt a broad-minded attitude and to help the employee in every way he can to further his career. From the point of view of self-interest alone, it will do no harm to the reputation of the firm if it becomes known that it is a good stepping ground towards a long-term career and equally it will do no harm to the firm to have former employees in various senior positions within the organizations of some of the firm's clients.

29. In the case of provincial firms, not only is there the counter attraction of a career in industry, but also a fairly steady trend towards the large professional offices in London. This is only natural, since many of the younger members of the Institute realize that they can widen their experience and improve their own professional worth by working for a time in a London office. Here again, the employer should, I think, adopt a helpful and broad-minded attitude.

Staff Changes

30. I would like to say here a word on the question of staff turnover generally. It is sometimes thought to be a bad thing, but in my opinion, within reason, changes of staff on various jobs and within the firm as a whole, exert a beneficial effect on the efficiency of the office. They bring a flow of new thinking to old problems, a different approach to routines which may have become too mechanical and help to avoid the danger which is particularly prevalent in the field of auditing, that the staff dealing with the job

may take too many things for granted. Changes of staff are not usually popular with the client who happens to be affected by them – he has to give many routine explanations all over again, and it becomes a matter of judgment to what extent a change of personnel on a particular job, though it may be desirable on general grounds, can in fact be allowed.

31. I have always considered that, particularly in the case of qualified men in the younger age groups, employment in a professional office has two vital aspects. The employer gains from the keenness of the employee to widen his experience and to make his mark in the profession and against this the employer should be prepared to help the employee by giving him the maximum amount of scope consistent with his ability and affording him whatever help is possible in the furtherance of his career.

32. The pillars, however, of any professional office, on which the whole organization rests, are those qualified members of the staff who have been working within the organization for a considerable number of years and are not only thoroughly familiar with all that goes on within it, but also help the partners to uphold the standards of efficiency and service to clients. The same remarks apply, of course, to those members of the staff whose only 'qualification' is that they are full of experience and ability. Clients, too, will find it desirable to be able to look to some members of the staff whom they have known for many years for the discussion of such problems as they do not wish immediately to refer to a partner. These senior employees are, therefore, deserving of special consideration in regard to conditions of employment and provision for retirement.

THE FIRM AND THE OUTSIDE WORLD

New Clients

33. It will no doubt be the wish of most practising members that their practices should grow over the years by the introduction of new work. The ways in which this will occur will naturally vary as between the practices of different sizes. Most new work will come by way of personal introduction from existing clients or from bankers, solicitors, etc. Difficult taxation cases sometimes arise by introduction from an Inland Revenue official.

Loss of Work

34. There is, however, another side to the picture. The acquisition of a new client by one practitioner will frequently mean the loss of that client to another. The abuses to which such events could give rise are, I think, effectively avoided by the rules of etiquette which all practitioners should observe. Even within such rules, however, it sometimes happens that the practitioner who is losing a client, while he has no real grounds for objection, does feel aggrieved. It is very difficult to avoid instances of this nature and the right attitude is, I think, to say that the client in all cases has an overriding right to obtain the best

service he can, wherever he feels able to obtain it. Similarly, I think that where the client's confidence has been lost, even though this may be in fact through no fault of the practitioner concerned, it is better to face the facts and resign gracefully than to allow matters to go to extremes.

35. I should mention in explanation of what has been said before, that the rule about communicating with the existing accountant before accepting appointment is not designed to give the latter an opportunity to object to the change; if such were the purpose of the rule, it would frustrate the client's freedom to choose his accountant. The rule is designed so as to safeguard the existing accountant from removal because he wishes to carry out his duties conscientiously, and to safeguard the proposed new accountant from undertaking the work without being aware of, possibly, unsatisfactory circumstances.

36. The effect of the creation of large industrial combines in the last fifteen or twenty years has been to encourage the formation of holding companies which absorb various subsidiaries which have previously had different auditors. The directors of the holding company frequently consider that the interests of the group would be best served by having one firm of auditors to deal with the audits of all companies in the group. This is perhaps unfortunate because it tends to reinforce the trend, which is already strong, of centralizing the work in the hands of the larger firms at the expense of the smaller, but I fear that in present conditions it is inevitable. The nationalization of such industries as gas, electricity, transport and coal, particularly the latter, has tended to have the same effect, although the authorities concerned have tried to be helpful in mitigating the worst features of it.

37. On the other hand, the opportunities of personal, constructive work in advising clients have increased, for the small practitioner as well as the large, in recent years, in step with the increasing complexity of business in general and of taxation in particular. Moreover, in the war and its aftermath, many small enterprises have expanded and grown rapidly and have thereby provided opportunities for their professional accountants' practice to grow with them.

Other Professions

38. The practising accountant's relations with his clients and with various public bodies such as the Inland Revenue are well defined and need little comment here. Normally there would also be relations with various banks with which the professional accountant is likely to have numerous dealings on his clients' behalf. It is hardly necessary to say that friendly relations with the various bank managers will prove helpful. Equally important are the relations with solicitors, with whom every practising accountant is likely to have numerous dealings and contacts. In this country, the relations between the two professions are, on the whole, well defined and give rise to little dispute.

Public and Honorary Work

39. A further aspect of relations with the outside world is concerned with public and honorary work which accountants are occasionally called upon to do. In these days when the practising accountant's time already has too many demands upon it, there is a great temptation to avoid commitments of this sort, but I cannot help thinking that to do so will in the long run prove to be a mistake. If the special skill which the accountant happens to possess is required for some public purpose he should, within limits, be prepared to devote his talents to the community. There will not, I imagine, be much dispute as to the principle and, as in so many other cases, the difficulty is to know how to apply it in practice and where to draw the line between the commitment which is reasonable and the one which is not.

40. For example, I think that honorary audits, if they are of any size, are undesirable in principle. There is a temptation with an honorary audit to relax the standard of care which is normally applied. This is dangerous, because the auditor's liabilities, at least for gross negligence, may be as great in the case of an honorary audit as in a normal case. The right principle, in my opinion, is for such audits to be paid for, leaving the auditor, if he is interested in the charity concerned, to make a contribution direct.

Change of Emphasis in Types of Work

41. I might add at this point that in the last ten or fifteen years a great change has come over the types of work done by practising accountants, or rather over the amount of time taken up by various sections of it. More and more, the time of partners, and to some extent senior staff, comes to be taken up by such matters as estate duty, taxation generally, and giving general advice on financial matters. Not only do such matters involve numerous meetings with clients, but also considerable time for thinking out the right course of action and its implications. This is, in my opinion, a major problem, because under the pressure of such matters the fundamental work of the practice, namely auditing, may come to receive less than its proper share of attention. The dangers involved are obvious, not only because mistakes in this direction can prove to be rather expensive, but also because auditing, which provides the main proportion of the income of most practices, is still one of the most important functions of the profession.

42. A further shift in the emphasis of our work is represented by the increasing services which practising accountants can and do render to management. This is by no means a new development, but one which has attained considerable importance in recent time. Such services include the installation of accounting systems and the interpretation of accounts for purposes of day-to-day management, particularly where the client's organization is not large enough to justify the employment of staff qualified for this work.

43. A service of similar nature, which is sometimes

provided by practising accountants, is the payment of salaries to a client's senior staff on behalf of the client. The advantage to the client of such an arrangement is that the preservation of privacy, which is essential, or at least desirable, is facilitated. Also, it relieves the person who would otherwise be dealing with this work within the client's organization, who would normally be a director or senior executive, of a good deal of tedious and detailed work.

Directorships

44. It is clear from an examination of *The Directory of Directors* and recent prospectuses that it is becoming increasingly common for practising accountants as well as those employed in industry to be elected to a seat on the board. I am told that, in a number of the big practising firms, partners are precluded by agreement from taking on directorships. In my opinion it is only the biggest firms who can afford to take up such an attitude. This increasing function of the accountant is, I believe, an excellent thing for the profession and for industry generally, provided that the accountant realizes his limitations.

INTERNAL PROBLEMS

45. I now come to a number of small, and possibly unrelated points, which may be appropriately grouped under the above heading.

Insurances

46. I am not here concerned with the ordinary risks and contingencies of life, to which the accountant, like every other person, is subject, but only those arising from his particular occupation. Quite obviously, the foremost of these risks is that of being at some time made liable by a client for damages in respect of negligence – not only on the part of the practitioner himself, but also on the part of his staff. Special policies are available to cover this risk, which arises from the accountant's duty to bring to bear upon his work a fair, reasonable and competent degree of skill. I consider that such a policy is an absolute essential in any practice. It usually covers claims made during the currency of the policy, whenever the cause of the claim may have arisen, and only such claims as arise from the accountant's acts as such; negligence in the course of acting as receiver, manager, or liquidator, needs special cover and presumably may entail an additional premium.

47. It is important to note that such indemnity policies do not cover claims arising from the criminal, dishonest or malicious act of the insured or of his staff. We may discount the possibility of such an act by the accountant himself, but what of the acts of each and every member of a possibly numerous staff? The only way to cover such contingencies is by means of a fidelity guarantee for individual persons, but to cover the risk in its entirety would, I think, be difficult. Quite apart from the risk involved with members of the staff who handle cash or cheques, there is also a possibly remote risk of

collusion by one of the staff and a member of a client's staff to the detriment of the client.

48. Where accountants are appointed as receivers or liquidators or trustees under Court orders, the Courts require a special form of surety for the faithful performance of the office and it is usually convenient to provide such bonds through an insurance company.

49. Other aspects of insurance which may possibly concern a practising accountant are public liability and employer's liability, but I do not propose to go into any detail because these risks apply equally to any other business enterprise. They are well known and cover for them is readily obtainable.

50. A special risk applicable to professional offices is the possibility of the loss of clients' papers, involving the obligation to replace any papers which have been lost or accidentally destroyed. It is usually possible to effect an all-risks insurance to cover contingencies of this kind, including accidental loss of papers while in transit in the custody of the firm or any of its staff.

51. In cases particularly of a smaller practice, the whole goodwill of the practice may be lost if one or more individuals are incapacitated for a lengthy period by illness or injury arising from an accident. As a palliative, personal accident policies are available, particularly for accidents resulting in death, loss of limb or sight, temporary incapacity, and sickness resulting in temporary total incapacity; group personal accident and sickness insurance are also available to cover members of the staff in similar contingencies.

52. The risks attending upon the use of motor-cars and the insurances available against them are too well known to need detailed discussion here. Where the car is used by the insured for business purposes, the insurance involves an extra premium and some insurance companies interpret the fact that books and papers may be carried by an accountant in his car, as being use of the vehicle for the carriage of goods or samples, and this may need special cover and an additional premium. A special position arises where employees use their own cars for the employer's business, because there rests upon the employer a liability at law for injury to persons, including passengers, and for damage to property caused by the negligence of the employee in the same manner as if the employer owned the car.

53. To protect himself against this liability, the employer should require each employee, who uses his car for business purposes, to have his policy specially extended to cover this liability, and this can often be done without an extra premium. Alternatively, as an extra precaution, the employer can effect himself a contingent third party liability policy which will protect him in all those cases where the employee's own policy is, for one reason or another, not effective in the particular circumstances envisaged here.

54. Perhaps one of the most serious risks of an

accountancy practice is the possibility of destruction by fire of the various books and papers. These can only be insured as such for the value of the materials, such as stationery, together with the cost of the clerical labour expended in writing them up, and while such cover may be useful, it is obviously not a complete insurance against the loss which might arise. Probably the only way to provide for this risk is by means of a consequential loss policy on the lines of the usual loss of profits insurance with which we are familiar from having dealt with such matters on behalf of clients. Special policies are available for accountants in this connection, which provide cover against the loss of gross fees and increased working expenses in the event of disturbance of the normal work of the practice by fire. The amount of the indemnity is based on the amount of gross fees lost and on the actual increased working expenses incurred, subject to the usual restrictions where the sum insured does not cover the full amount of the gross fees in the basis period. The indemnity is subject to adjustment as may be necessary to provide for the trend of the business and for variations or special circumstances affecting the business either before or after the damage, or which would have affected it had the damage not occurred. The result of this, where the amount insured has been adequate, is to make the indemnity as nearly as possible equal to the net profits which would have been earned if the fire had not occurred, but, speaking personally, I think that a policy related to amounts recoverable under the ordinary fire policy is as good as any, for instance, say, four times the recovery under the fire policy.

Working Papers

55. I have referred to the damage which can be done to the practice by the loss of working papers, but an almost equally serious problem is represented by the accumulation of these working papers in the course of years. The general practice, I imagine, is to keep all these papers for a considerable length of time because it is never possible to be sure that they will not be required again. The difficulty is to know, however, where to keep them and how to arrange them in such a way that they are available for ready reference. The amount of space that can be devoted in any office for the storing of old files is usually limited and it will, generally speaking, be such space as is not usable for some better purpose. The result of this, unfortunately, is that these papers gather the dust in the course of years, and fall into some disorder. I think that in future the solution of this problem may lie, in those cases where the volume is great enough, in some form of photographing the papers on micro-film, which can then be stored in a much smaller space and in a much more orderly manner. In other cases where the volume is not large enough, I think the answer probably is to adopt a more ruthless attitude in regard to the destruction of old papers and it would be interesting to hear from those present

at the course what, in their practices, is the usual period for which it is considered necessary to keep such files.

Delegation of Responsibility

56. I now refer to another subject which I have briefly touched on before. The increasing demands upon the time of partners and senior members of the staff have created a problem, in that insufficient time remains available for routine supervision and examination by a partner of audit, tax or other work done by some member of the staff. The only solution to this, that appears to be practicable, is to delegate this work as much as possible to someone who has the time to deal with it, but the matter is a particularly difficult one in relation to the smaller personal tax cases where attention to detail may make a substantial difference in terms of money saved or lost to the client, but where it is difficult to lay down routine procedure which the member of the staff who is dealing with the matter can follow and which would enable a partner to be certain that all aspects have been covered. The danger of laying down routine procedures for such cases, as indeed in other cases also, is that strict adherence to them may create as many dangers and leave as many faults as if they had not been laid down in the first place. This is merely another illustration of the fact that there is no substitute for personal skill at any level of the work of an accountancy practice, but here again it would be interesting to know whether the same difficulty is being encountered in other practices and what steps are taken to meet it.

Fees

57. I am sure that in a paper of this nature I shall be expected to make some reference to fees. It is well known that the Council has consistently refused to lay down any scale or scales. Personally I am convinced that the fixing of a standard scale would be a disservice to the profession and in particular the smaller practitioner in the provinces.

RELATIONS WITH THE REST OF THE PROFESSION

Professional Etiquette

58. I need say little here about the rules of etiquette by which our profession is governed, which are for the most part meticulously adhered to by our members. I realize, of course, that some members of the Institute suffer from competition by members of other bodies which do not impose any restriction on advertising, in which membership can be obtained with little or no test of knowledge and ability, or from practitioners who belong to no accountancy body, some of whom adhere to no standard in these matters. It was at one time hoped that a measure on the lines of the Public Accountants Bill would go far towards meeting this difficulty, and it is a matter of regret to all of us that no measure could be found to meet the problem.

Obtaining a Second Opinion

59. I think that, as a general rule, ought to be far more ready than they obtain a second opinion from a professional person on points of particular difficulty. In medical professions this is almost a mainstay in cases of great complexity, and I think the material with which we as practising accountants deal has now become so voluminous that interest would often be best served by opinion from someone who happens to possess specialized knowledge of the matter involved. There are proper safeguards, particularly observation of the rule that the firm who is to advise should communicate only with the person who brought the case to it and not with the client direct, except with permission, I do not think such a practice would be open to any objection. On the other hand, it might do much to improve the standing of advice given to clients and thereby the standing of the profession as a whole.

Articled Clerks

60. This leads me to another subject, that of articled clerks. I consider that there should attach much more importance to this question than has been done in the past. It is not to say that articled clerks were at one time as a source of income in the form of non-return premiums or as a means of securing a return. The custom of obtaining non-return has all but died out, and the practice of paying salaries to articled clerks, at any rate in the past, is on the increase. However, the question I want to make is that the selection of articled clerks ought to be much more a matter of trying to get the right individual concerned is to get the right type to enter the profession. The point of view of character and personal ability. Obviously, the professional ability. Obviously, the professional future unless there is an adequate selection of members who have been properly trained for the right type for the work and response of the profession. Admittedly, the minimum general education which must be at the articles can be entered into, are laid down by the Institute, but this does not dispose of the question of principals to exercise great care in selecting suitable for service under articles.

District Societies

61. In any discussion about the relations of the profession, district societies and the facilities provided by them occupy a prominent place. The lectures and discussion groups organized by such societies, as well as the provision of a library should be of considerable value to all members. In the larger offices the number of partners is often small, and staff often allows discussion of matters of interest within the firm itself, but even in the smaller offices the opportunities of an exchange of ideas

tioners whose clientele and problems may be entirely different should not be missed. This is, of course, one of the main benefits of this course. For the partners or the sole principal of a smaller firm would otherwise have no opportunity at all of making comment and opinion on the many difficult matters which arise in practice from day to day, the district societies should fulfil a particularly important role. I hope, therefore, that increasing use will continue to be made of the facilities provided by such societies.

In conclusion, I have to apologize if my paper has appeared too elementary to many of you. Provided that it provokes questions in the discussion groups, I shall be satisfied.

CONTENTS

	Page
INTRODUCTION	163
THE FIRM AS A UNIT	164
Relations between partners	
Goodwill	
Office accounts	

THE FIRM AND ITS STAFF	165
General	
Recruitment and responsibility	
Pension schemes	
Loss of staff	
Staff changes	

THE FIRM AND THE OUTSIDE WORLD	167
New clients	
Loss of work	
Other professions	
Public and honorary work	
Change of emphasis in types of work	
Directorships	

INTERNAL PROBLEMS	168
Insurances	
Working papers	
Delegation of responsibility	
Fees	

RELATIONS WITH THE REST OF THE PROFESSION	170
Professional etiquette	
Obtaining a second opinion	
Articled clerks	
District societies	

WEEKLY NOTES

Minister's Tribute to Lord Latham

Speaking in the House of Commons on July 29th, the Minister of Transport referred to the intention of Lord Latham, J.P., F.A.C.C.A., F.C.I.S., to resign from the chairmanship of the London Transport Executive at the end of his present period of office in September¹, and paid a high tribute to Lord Latham for his work in administering London's transport services during the last six years. The Minister declared that chairmanship of the Executive was

'a position of high importance requiring not only a wealth of skill and experience, but also, what was so necessary in this particular position, a keen realization of the views and feelings of the public on matters relating to their daily travel. . . . London transport as Lord Latham leaves it is without doubt the finest metropolitan transport system in the world'.

Exchequer Equalization Grant

The report of the Committee of Investigation into the Exchequer Equalization Grant, which we discussed in a leading article in our issue of July 11th, has provoked a swift reply from the elected representatives of the twenty-seven county borough councils who reproduced a report on the subject in January last, a report which we mentioned in a Weekly Note in our issue of February 7th. The report of the Investigating Committee having rejected the recommendations of these twenty-seven authorities, they have produced a unanimous

'Report B' which contains reasoned criticisms of the Investigating Committee's report and reaffirms the conclusions of their original report. The gravamen of Report B is that the lack of uniformity of rating standards makes any scheme dependent on rateable value inequitable; and that in any case rateable value is no accurate measure of the wealth of a local authority. It observes that a scheme which gives Birmingham a grant of £1½ million per annum and Manchester nothing, must certainly be based on false premises and be suspect. The grant, it says, should be related primarily to population, modified for the moment perhaps, by reference to figures of rateable value per head of weighted population in each local authority area.

Civil Service Pay

A Royal Commission under Sir Raymond Priestley is to review pay and working conditions in the Civil Service. This is the first general review of its kind since 1931 and the Commission will be considering the employment conditions of all non-industrial civil servants who number about 600,000.

It has been the custom to reconsider the pay and so on of members of the Civil Service about every twenty years and this review may well be the most important of the series. In the first place the war led to a voluntary relinquishment by civil servants of certain favourable features in their terms of employment. Hours were increased and holidays reduced.

Now, in the nineteen fifties, the restoration of these will have to be considered. But there are more fundamental issues to be examined. Civil Service

¹ See *The Accountant* dated February 28th, 1953.

pay has moved lower in the national scales of remuneration after more than a decade of inflation and some reassessment of the value of security in lieu of incentives to higher earnings is overdue. The issue of equal pay is bound also to loom up again and it may not be so easy to do no more than pay lip-service to the principle of equal pay after a Royal Commission has had its say on the whole range of salaries and conditions. Changes in remuneration, changes in hours and holidays and possible alterations in superannuation are all within the Commission's terms of reference.

Marketing the Steel Companies

The Iron and Steel Holding and Realization Agency announced this week the broad lines upon which it is proposed to market the steel companies nationalized under the Act of 1947. The Agency hopes to have the machinery of sale in smooth working order by the early autumn. Eight leading issuing houses and investment bankers have formed themselves into a consortium to handle the marketing of the issues and will, in effect, underwrite the flotations as they occur.

As was expected, the Agency will start by offering the Big Seven for purchase but in what order has still to be divulged. These are Colvilles, Dorman Long, John Summers, Lancashire Steel, Stewarts and Lloyds, United Steel Companies and Whitehead. The ordinary shares will be offered first and those on the share register of these companies at the time of nationalization will have a priority of repurchase. It will be possible to tender gilt-edged in lieu of cash but which Government issues will be eligible will not be known till nearer the time of sale.

It is understood that the companies' capital structure when marketed will not necessarily be the same as at the time of nationalization. The Agency has the job of ensuring that the companies are hived-off with a capital structure which is at the same time sensible so far as their trading future is concerned, as well as attractive to the would-be purchaser. A private sale has already been negotiated by the Agency. Two previous shareholders of the Templeborough Rolling Mills have bought back their holdings (United Steel, the third holder, was never called upon to relinquish its holding) - they are large companies not small shareholders. In this connection, incidentally, the Agency is emphatic that because this deal was negotiated at a price near the take-over price on nationalization, this coincidence does not mean that buyers will get shares at the old take-over price. They may be more; they may be less. Prices will be market prices after taking account of companies' earning capacity and the present structure of interest rates.

This last point may be important. The Agency proposes to pursue a flexible policy in terms and timing of the sales but it is difficult to avoid the conclusion that a slow-moving queue caused by the market's limited capacity to absorb steel shares would affect the terms of the later offers.

Acquiring Motor Body Companies

It was announced last week that the British Motor Corporation had agreed in principle to make an offer for the ordinary capital of Fisher & Ludlow to the motor body builders. This is the second deal of its kind for it will be recalled that some time ago the Ford Motor Company acquired control of several of the Motor Bodies.

From the announcement it would appear that neither the management nor the policy of Fisher & Ludlow is to be changed by the acquisition. The company has over recent years built up a very diversified output in various kinds of steel pressings which it has sold to the industrial and consumer goods markets and this diversification is to go on.

Hardly less important, however, than its effects on the two companies concerned is the implication of the deal on the structure of the motor industry. It is not so much that this particular transfer of control is fraught with immediate dramatic significance for the Big Five and the smaller motor companies. It is rather that it serves as a reminder that there is still a good deal of manoeuvrability within the industry, that two of the Big Five are gradually building up their position in a certain way against the day, which may not be very far off, when competition fierce and unrelenting may return to the motor-car industry.

Industrial Output Keeps Up

Despite the Coronation holiday, industrial production was higher in June than it was at the same time a year before. This estimate is provisional but an examination of the index for May shows it running at 123 compared with 117 in May 1952. It is not surprising, therefore, that with a lead of six points in May the official index was able to absorb the Coronation celebrations in the following month without a decline in production compared with the early summer of 1952.

The reason for the resilience in May and June is the come-back in textiles. At May-June last year the textile recession was in full swing, but since then there has been a substantial recovery - in the case of rayon to record levels of output. The general picture of industrial activity is now, in fact, a complete contrast with a year ago. The consumer goods have gone through the worst and are in most cases well back on the road to recovery. But some of the metal and engineering industries are now lagging - due in part to a cessation or cancellation of armaments contracts. Even the continued excellent performance of the steel industry is not sufficient to hide signs of wilting here and there in capital goods.

It may be, however, that increased capital investment which should now be following as a part of Budget policy as enunciated last April will be of some assistance in this part of the economy. The period under review is also, of course, a time of seasonal easing-off in the fuel and power industries.

FINANCE AND COMMERCE

Stock-markets continue to give an impression of confidence. Business is not by any means large but, with buyers predominating, gilt-edged and industrial equity values are moving slowly ahead. Prospects for firm autumn markets are considered encouraging.

Courtaulds

We complete this week the reprint of the full accounts of Courtaulds Ltd, the main feature of which this year is the revision of the depreciation basis to which we referred last week. Readers will also notice, however, the substantial excess of real capital employed over the issued capital of the parent company.

Stockholders would be justified in expecting the making up of the nominal capital to a more appropriate figure by way of capitalization of reserves. The chairman himself admits that the board would no doubt have taken such steps in ordinary circumstances.

They have postponed action, however, largely because of the considerable recession in the rayon industry at home and overseas which began to be apparent some eighteen months ago and, it is stated, is still in force to some extent. In these circumstances, and also because results in profits and dividends of the group's extensive post-war expansion expenditures cannot yet be fully assessed, it is difficult to gauge the level of maintainable profits in future years.

Moreover, as the chairman says, if there were to be a revaluation of assets as a whole – 'about the desirability of which there are conflicting opinions' – the nominal and issued capital would be further increased.

A New Asset

The balance sheet of London Stadiums Ltd at April 30th, 1953, shows a new asset: 'Lease of Wandsworth Stadium – consideration for surrender £68,340, less amount written off £5,000'. The balance of £63,340 is carried out. The background to this new account is interesting.

The company's predecessor, The Wandsworth Stadium Ltd, held a sub-lease of the stadium and car park which expired in 1952. After entering into this sub-lease, that company was able to purchase the freehold, not only of the stadium and car park but of the adjacent property, the whole having been let on lease expiring in 1970.

The position at the formation of the present company, therefore, was that it owned a freehold property which had been let to a third party on a lease expiring in 1970 and part of which had been sub-leased to it until 1952.

On expiry of the sub-lease, the directors endeavoured to obtain a further sub-lease expiring in 1970 when the head-lease will expire. These negotiations, however, failed.

The maximum further lease that could have been granted under the Landlord and Tenants Act would only have carried the company to 1966, leaving four

years before possession of the freehold could be claimed. It was a position which the board viewed with considerable concern but which, it is stated, was happily relieved by an offer to sell all, or part, of the head-lease. The final result was the company's acquisition of the head-lease of the stadium and car park at a figure which approximated to that given by professional advisers.

By the acquisition of this lease, the company is relieved from paying a large annual rent. As it already held the freehold, it was decided to show the consideration for the surrender of the lease as a separate item and to write off annually an amount approximating the rent saved.

Long-service Award

An important point of principle concerning issues of new capital to existing shareholders for cash by way of Letters of Rights has recently been set down by the *Financial Times*. The matter arose in connection with the issue by John I. Thornycroft & Co Ltd, of 600,000 £1 ordinary shares at par on the basis of one for each share held. The existing shares were worth about 46s when the new issue was announced.

As almost inevitably happens in such cases, some shareholders failed to use or sell their rights and 25,539 shares were left over. For these excess shares, however, applications for 349,188 shares had been received.

In making the allotment of the excess shares, the directors deliberately selected certain shareholders and excluded others, the shares going to applicants who were shareholders twenty years previously, in the proportion of their holdings on May 15th, 1933, to the excess shares available.

The *Financial Times* through its contributor 'Lex', maintained that it was a new and bad principle to distinguish in this way between shareholders of the same class. Where equal allotment was impracticable because of the size of the application, the proper course, it maintained, was to ballot.

Immediate notice of this criticism was taken by the board whose sole concern had been to give tangible recognition to the fidelity of those shareholders who had remained with the company through the difficulties of the slump of the 1930's. They cancelled their decision and changed the basis of dealing with the excess shares so that all who had applied received an allotment.

Money Market

Treasury Bill applications on July 31st reached the record total of £395,455,000, an increase of nearly £20 million over the previous week. The market maintained the bid at £99 8s 3d and obtained 48 per cent of requirements, and the average rate was little changed at £2 6s 11.66d per cent. This week the offer is raised to £260 million.

COURTAULDS LIMITED AND SUBSIDIARIES
Schedules to Balance Sheet - March 31st, 1953

	Courtaulds Limited 1952 £	Reference	Group 1953 £	Group 1952 £
1. FIXED ASSETS				
Land and Buildings	15,528,815	A	22,017,494	20,416,796
Provisions for Depreciation ..	3,490,372	B & C	4,641,309	4,903,886
Balance	11,902,710		17,376,185	15,510,910
Plant, Machinery and Equipment ..	36,435,355	A	53,594,154	43,973,366
Provisions for Depreciation ..	10,099,446	B & C	13,840,888	13,949,868
Balance	26,072,667		39,755,266	30,023,498
Houses and Other Property ..	1,042,956	A	1,221,998	1,138,141
Provisions for Depreciation ..	323,071	B & C	266,018	343,353
Balance	719,885		955,980	794,788
Total Fixed Assets	50,837,369	A	76,835,646	65,528,303
Less: Provisions for Depreciation stated above	13,833,793	B & C	18,748,215	19,199,107
Balance	36,693,262	B (a)	58,087,431	46,329,196
Less: Provisions for Obsolescence in connection with Fixed Assets of Courtaulds Limited for Depreciation as at January 1st, 1940, and Provisions for Obsolescence to March 31st, 1952 ..	12,330,373		12,330,373	
Net Amount carried to Balance Sheet	£26,364,989		£57,426,906	£33,998,823
A. Fixed Assets are stated as follows:				
(a) Courtaulds Limited:				
At cost, or, if acquired before the time of an independent valuation carried out in 1938-39, on the basis of replacement cost as new in 1938-39.				
(b) Subsidiaries, at cost:				
Provisions for Depreciation deducted from the relative Fixed Assets existing at March 31st, 1953, are as follows:				
(a) Courtaulds, Limited:				
Provisions for Depreciation are calculated by reference to the dates of acquisition at revised rates introduced in the year 1952-53 as the result of a comprehensive survey of the estimated lives of the Fixed Assets; the Board of Trade, as empowered by the Companies Act, 1948, has modified the provisions of the Act in regard to the depreciation of fixed assets (see Sch. 6 and Note 3 (c)).				
date of the valuation of Fixed Assets in 1938-39 as well as in regard to the block provisions for obsolescence amounting to £5,660,525 which are not allocated to the various classes of Fixed Assets.				
As a result of this survey, over-provisions of depreciation in past years amounting to £6,654,954 have been released and transferred to Reserve towards increased cost of replacement of fixed assets (see Sch. 6 and Note 3 (c)).				
(b) Subsidiaries:				
Provisions for Depreciation are calculated from the dates of acquisition of the Shares therein; as a result of a revision of the estimated lives of the Fixed Assets of a subsidiary abroad, an over-provision for depreciation amounting to £2,711,469 has been released and transferred to Reserve towards increased cost of replacement of fixed assets (see Sch. 6 and Note 3 (c)).				
C. Provisions for Depreciation deducted from the relative Fixed Assets existing at March 31st, 1952, were, as regards Courtaulds Limited, provisions since January 1st, 1940, and as regards Subsidiaries, provisions since the dates of acquisition of the Shares therein.				
2. INVESTMENTS IN SUBSIDIARIES				
Shares	19,053,367		19,296,714	19,053,367
Debentures and Advances ..	1,668,999		1,315,048	1,668,999
Debts on Supply and Current Accounts ..	536,067		501,112	536,067
Balance	21,128,433		21,112,874	21,128,433
Less: Credits on Current Accounts ..	36,634		37,247	36,634
Net Amount carried to Balance Sheet of Courtaulds Limited.	£21,221,799		£21,075,628	£21,221,799
3. TRADE AND OTHER INVESTMENTS				
Trade Investments at cost (see Note B) ..	10,334,198		11,448,089	10,334,198
Less: Amounts written off	3,667,016		3,666,111	3,667,016
Balance	6,667,182		7,781,978	6,667,182
Other (unquoted) Investments at cost ..	194,057		194,025	194,057
Net Amount carried to Balance Sheet	£6,861,239		£7,976,003	£6,861,239
4. GOVERNMENT SECURITIES: comprising Securities of United Kingdom and (in Group Balance Sheet) Canadian and United States Governments. At or under cost, as shown in Balance Sheet ..	£5,422,431		£4,743,681	£5,422,431
Value of these Securities at March 31st, 1953, at Middle Market Prices	£5,422,431		£4,998,643	£5,422,431
5. CURRENT LIABILITIES, PROVISIONS AND DIVIDENDS				
Trade and Other Accounts	4,493,477		3,544,140	4,493,477
Taxation	3,797,723		2,018,676	3,797,723
Provisions for Penalties	751,771		1,161,081	751,771
Dividend (less tax) on Preference Stock accrued to date	52,500		55,000	52,500
Final Dividend (less tax) on Ordinary Stock proposed to be paid on July 30th, 1953 ..	787,500		825,000	787,500
Amount carried to Balance Sheet	£9,872,971		£7,623,897	£9,872,971
6. CAPITAL RESERVES				
Post-war Refund of Excess Profits Tax, amounts received (see Note 3 (a))	500,000		817,131	500,000
Reserve against Government Securities (see Note 3 (b))	367,521		367,672	367,521
Reserve towards increased cost of replacement of fixed assets (see Note 3 (c))	6,796,667		14,951,621	6,796,667
Reserve against increased cost of replacement of raw materials and other stocks (see Note 3 (d)) ..	5,400,000		3,400,000	5,400,000
General Reserve (see Note 3 (e))	16,611,591		20,465,679	16,611,591
Amount carried to Balance Sheet	£29,675,779		£40,002,103	£29,675,779
7. REVENUE RESERVES				
Reserve for United Kingdom Income-tax based on United Kingdom profits for the year to March 31st, 1953 (see Note 1) and, in 1952, Group Balance Sheet, £127,719 Reserve for United Kingdom Taxes on profits and loss balances of overseas Subsidiaries no longer considered necessary (see Note 4 (a))	4,132,919		2,743,755	4,132,919
Reserve for United Kingdom Tax deferred by initial allowances (see Note 4 (b))	3,420,700		3,125,400	3,420,700
Reserve for Tax abroad deferred by accelerated depreciation allowances (see Note 4 (c)) ..	1,000,000		1,000,000	1,000,000
Reserve for Contingencies	6,000,000		6,000,000	6,000,000
General Reserve (see Note 4 (d))	743,366		769,142	743,366
Profit and Loss Account (see Note 4 (e)) ..	£15,298,985		£13,638,297	£15,298,985
Amount carried to Balance Sheet	£18,221,296		£18,221,296	£18,221,296

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accountants and Secretaries and Section 161 (1) (b) Companies Act, 1948.

SIR, - With reference to the further letter of 'Chartered Secretary' in your issue of July 25th, the consensus of opinion in the profession is that practical accountancy experience plus a proper accountancy qualification is the *sine qua non* of a person who is deemed to be properly competent to act as an auditor, or to undertake other professional accountancy work.

The concession given by Section 161 (1) (b) was made only on the grounds of expediency, as it was stated that the number of members of the recognized accountancy bodies might prove inadequate. I do not think that most members of the profession agree with this reason, and hope to see such concession eventually removed.

In any case I do not think that because a person possesses such practical experience and happens to be a member of an extraneous body, that this is an argument for including the whole of the members of such body in a possible roll of qualified accountants.

Yours faithfully,
CHARTERED ACCOUNTANT AND
CHARTERED SECRETARY.

Articled Clerks in Industry

SIR, - As an articled clerk, who is now spending a four-month period in industrial experience with the Southern Division Headquarters of the British Electricity Authority after two and a half years' service in a small provincial office, I should like to express my support of Mr Frampton's recommendation of greater use of the facilities offered by Byelaw 58 (c) of the Institute's Charter (*The Accountant*, July 18th, pages 67-68), and add a plea as to its special advantages for those articled clerks serving in small provincial practices.

These provincial practices can provide articled clerks with a very wide variety of experience, with opportunities to assume responsibility and with experience of working with clients; but they can rarely give any experience of accounting on a large scale, even at second-hand by audit experience.

I suggest that the filling of this gap in the practical professional training of chartered accountants is one of the outstanding advantages of this scheme. A further advantage mentioned by Mr Frampton, which I endorse, is that the six-month period, necessitating as it does rapid inter-departmental movement, compels continuous mental alertness.

When this is coupled with experience of office machinery, punched-card equipment, internal audit,

I submit that, providing the conditions laid down by the Institute for such experience are fulfilled, one who has experienced it will in all probability be better fitted to bear the title 'chartered accountant'.

I am, Sir,

Your most obedient servant,

Purbrook, Hants.

J. P. HOUGH.

Co-ordination of the Profession

SIR, - Would it not be heartening if the presidents of the senior bodies let it be known that they had studied the views recently expressed in your columns on this subject? They might also add that they would once more take up the cudgels on behalf of the large numbers of practising accountants who are sadly in need of assistance.

The objections to 'closing' a profession are legion but there has been such a deterioration in the conditions obtaining within the profession that it is unreasonable for it to have to bear any longer the burden of forswearing the various forms of protection open to other professions. The conditions of practice and employment in the provinces would be ludicrous if they were not so tragic.

If those who have voluntarily taken up the task of guiding our destinies would take heed not only of the urgency of the situation which is apparent from the correspondence, but also of the silent anxiety with which many face the future, they would be rendering an added service to the profession at a critical time when so much depends on their leadership.

Yours faithfully,

A.C.A.

The Accountancy of J. M. Keynes

SIR, - So Mr Striker does not believe that the wood is there because he finds a few weeds at the foot of some of the trees. And for an accountant to accuse an economist of unreality is like an elephant in a jungle complaining that the pigeons are shutting out the light.

As if debits and credits were all!

Yours faithfully,

Dublin.

A. PAKENHAM-WALSH.

SIR, - It is a pity that Mr Striker, who has been trained in both economics and accountancy, should misrepresent a great economist and then imply from this that economists in general foist unrealistic views on the public.

Keynes defined user cost as $(G' - B') - (G - A_1)$.

G = actual value of capital equipment at end of period.

A_i = purchases from other business men.

Mr Striker ignores ($G' - B'$) and hence obtains an absurd result for profit in his illustrative account. Having constructed his own Aunt Sally he has no difficulty in knocking it down. The only economist at fault is Mr Striker.

Yours faithfully,

London, WCI.

H. W. HAYCOCKS.

Goodwill: Jeweller's Business

SIR, - We shall be grateful if any of your readers will please advise us of the basis or bases of valuation of the goodwill of a jeweller's business.

Particulars of that which gives rise to this inquiry are:

- (1) It is carried on in competition with others serving all classes of customers in a semi-industrial city of 100,000 population and to which come farm and other rural communities on market etc. days.
- (2) Those goods in which any small jewellery business may be expected to deal are stocked, viz. gold, rolled-gold, silver, clocks, watches and fancy jewellery.
- (3) The business is conducted by the proprietor and his wife in premises which they own and of which they are prepared to grant any reasonable lease to a private purchaser.

(4) Takings approximate £6-7,000 per annum, inclusive of 'repairs', yielding about £2,000 net profit.

(5) Only health contributes to the wish to sell.

Yours faithfully,

PROVINCIAL C.A.s.

'Down the Escalator Going up'

SIR, - There is a rather simpler method of arriving at Charles Sidate's fine than the solution given to the problem which appeared in your issue of June 27th.

'Rosemary Ravel was about to walk down the escalator.' Twenty steps was one-fifth of the total steps, so she had 100 to go. The speed of the escalator (90 steps a minute) was half as fast again as hers, so her travelling speed was 150 steps a minute, and she reached the bottom in two-thirds of a minute. So did Charles Sidate, as they arrived at the same time. If his own speed was x steps per minute his travelling speed was $x - 90$, so he covered 20 steps in:

$$\frac{20}{x - 90} \text{ minutes} = \frac{2}{3}$$

making Charles' own speed 120 steps per minute. In two-thirds of a minute he would therefore have run down 80 steps and mulcted himself of £1.

One can only hope Rosemary was both sympathetic and disengaged for the evening!

Yours faithfully,

Madras, India.

R. G. N. PRICE.

REVIEWS

The Changing Law

by Sir Alfred Denning

(Stevens & Sons Ltd, London. 10s net)

Sir Alfred Denning is one of the Lords Justices of Her Majesty's Court of Appeal, and students of the law reports recognize him as one of the great judges of our time. This book is a collection of five lectures in three of which, in particular, he summarizes some of the more remarkable judge-made reforms of the past decade: landlord and tenant, contract, 'restitution', 'women's rights', are all being silently tidied up; and, more than is generally realized, the executive in all its modern manifestations is being slowly brought within the discipline of the Courts. It is an encouraging picture, but no complacency is possible to one of Sir Alfred's temper, and in his remarks here (as in another lecture last year) on the modern equity he makes uncompromisingly clear his view of what still needs to be done.

The first and last lectures in the book provide a framework of a wider jurisprudence for the detail of the other lectures; and the whole book, no more than an evening's reading, is one to be recommended to everyone who is concerned with one or other special department of the law. For, in the good simple English which is the language of the finest

lawyers, it offers the broader view of a humane and cultivated mind; and its only conspicuous flaw is that it contains no record of the many judgments in which Denning, L.J., has himself helped to mould the changing law.

RECENT PUBLICATIONS

PRINCIPLES OF SOUTH AFRICAN COMPANY LAW, by the late Eric Emmett, K.C., M.A., LL.D. (Manchester), and Trafford B. Barlow, B.A. (S.A.), LL.B. (Cape Town), LL.D. (Stel.) Third Edition by Trafford B. Barlow. xxix + 329 pp. 8½ × 5½. 35s net. Juta & Co Ltd, Capetown and Johannesburg.

A COURSE IN BOOK-KEEPING, Fifth Edition, R. W. Holland, O.B.E., M.A., M.Sc., LL.D. v + 368 pp. 8½ × 5½. 9s 6d net. Sir Isaac Pitman & Sons Ltd, London.

STORES ACCOUNTS AND STORES CONTROL, Fifth Edition, by J. H. Burton, F.S.A.A., F.I.M.T.A., F.C.I.S. xv + 291 pp. 8½ × 5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

AN ACCOUNTING PROGRESSION, by F. Sewell Bray, F.C.A., F.S.A.A. The inaugural lecture of the first Stamp-Martin Professor of Accounting, delivered at Incorporated Accountants' Hall. 12 pp. 9½ × 6½. 2s 6d net. Cambridge University Press, London.

JORDANS' INCOME-TAX GUIDE, 1953-54, by Charles W. Chivers. 48 pp. 7 × 4½. 2s net. Jordan & Sons Ltd, London.

ILLUSTRATIONS TO INCOME-TAX, 5th edition, by A. S. Silke, M.COM.(HONS.) (Cape Town), C.A. (S.A.). xvi + 560 pp. 9½ × 6. 67s 6d net. Juta & Co Ltd, Cape Town and Johannesburg.

NOTES AND NOTICES

Personal

MESSRS C. H. TRAVIS & Co, Chartered Accountants, of 14 Manchester Square, London, W1, announce the retirement of Mr A. EDMUND TRAVIS, F.C.A., as from June 30th, 1953. Mr TRAVIS also retires from the firm of LEACH, JOHNSON, TRAVIS & Co, Chartered Accountants, of 32 Kennedy Street, Manchester 2, and 20 Obun Eko Street, Lagos. Both practices will be carried on by the remaining partners under the same titles as before, but the London address has been changed to 128 Mount Street, London, W1.

MR E. CECIL BARBER, F.S.A.A., practising under the style of E. C. BARBER & Co, Incorporated Accountants, of 20-21 St Dunstan's Hill, London, EC3, announces that he has admitted Mr E. P. KACHEL, A.S.A.A., into partnership. The name of the firm will remain unchanged.

Professional Notes

Mr G. K. Day, A.S.A.A., has been appointed a director of Hickson & Welch (Holdings) Ltd.

Mr W. J. Bourne, A.C.W.A., Secretary of Job Wheway & Son Ltd, has been appointed an additional director of the company.

Obituary

HENRY CREWDSON HOWARD, F.C.A.

It is with great regret that we have learned of the death on July 30th, at the age of 84, of Mr Henry Crewdson Howard, F.C.A., senior partner in the firm of Pannell, Crewdson & Hardy, Chartered Accountants, of London.

At a meeting of the Council of the Institute held last Wednesday, the President spoke of Mr Crewdson Howard as follows:

'Admitted to membership in 1893, he was elected to the Council in 1924 and retired as recently as January of this year. He was Vice-President in 1947 and served on the Examination, Applications, General Purposes, and Investigation Committees, and the Planning, War Bye-law, and Organization Sub-Committees, having been Chairman of the General Purposes Committee and the Planning and Organization Sub-Committees, the last-mentioned since it was formed in 1946 to his retirement.

'He will ever be remembered for his unfailing charm of manner, his kindly sense of humour and loyal service to the profession. He was well-beloved by us all.'

In Parliament

RIVERS ACT: TRADE EXPENDITURE

Sir H. SUTCLIFFE asked the Chancellor of the Exchequer how far since the Rivers (Prevention of Pollution) Act, 1951, Her Majesty's Inspectors of Inland Revenue have been authorized to permit as an expense for taxation purposes, expenditure com-

pulsorily incurred in the installation of trade effluent plants.

Mr R. A. BUTLER: I am advised that such expenditure is of a capital nature, and not therefore allowable as an expense for taxation purposes. Capital expenditure on the construction of industrial buildings or on the provision of machinery or plant would, however, rank for the statutory allowances given in respect of such expenditure.

Hansard, July 28th, 1953. Oral Answers. Col. 1065

TAX ARREARS: DISTRAINT

Lieut.-Col. LIPTON asked the Chancellor of the Exchequer in how many cases during the past year goods and chattels have been distrained by the income-tax authorities; how much tax was recovered as a result; and how the figures compare with the previous year.

Mr R. A. BUTLER: I regret that this information could not be obtained without a disproportionate amount of expense and effort.

Lieut.-Col. LIPTON: Is the right hon. gentleman prepared to consider the advisability of removing from tax officers a right which they alone in the whole of the community possess, namely, the power to issue a warrant on their own initiative to distrain the goods of any citizen? Is it not-time that that aspect of the law was changed and that tax collectors were put in the same position as any other creditors?

Mr BUTLER: I do not think I agree. I think that without this power we might be in trouble. I also remind the hon. and gallant gentleman that in the great majority of distraint court cases we do not have to press to actual levy.

Hansard, July 28th, 1953. Oral Answers. Col. 1074.

Chartered Institute of Secretaries

OPENING OF NEW PREMISES

Since its formation in 1891 and the granting of a Royal Charter in 1902, the Chartered Institute of Secretaries has known many homes. This was due, mainly, to an ever-increasing membership and consequent activity requiring larger and larger premises, but during the last war its old Hall in London Wall was completely destroyed, together with many fine treasures, by enemy action. Further temporary homes have been occupied by the Chartered Institute meantime, but on Wednesday of last week, imposing new premises were opened by the Lord Mayor of London, Sir Rupert De la Bère, K.C.V.O., M.P., at 14 New Bridge Street, in the presence of a distinguished company which included:

Messrs Walter Barrie, *Chairman of Lloyds*; H. Beer, C.B., *Under Secretary, Board of Trade*; Sir John B. Braithwaite, *Chairman, Council of the Stock Exchange*; The Rt. Hon. Lord Justice Cohen, *Honorary member of the Chartered Institute*;

Sheriff Sir Sidney Fox; Alderman and Sheriff Sir Harold Gillett, M.C., F.C.A.; Sir Gilmour Jenkins, K.C.B., K.B.E., M.C., *Permanent Secretary, Ministry of Transport*; Mr R. H. Strauss, Q.C., M.P., *Parliamentary Secretary, Board of Trade*; Colonel J. Hulme Taylor, O.B.E., *The City Marshal*; Sir Harold Webbe, C.B.E., D.L., J.P., M.P.; together with high officers of many city institutions and livery companies and members of the Council of the Chartered Institute.

The new premises form part of the estate of the Bridewell Royal Hospital and include the hospital's former court room - which will be used as the Institute's Council Chamber - and administrative offices. Previously the site was occupied by part of the Palace of Bridewell, built by King Henry VIII. The premises - which comprise besides the Council Chamber already mentioned and secretarial accommodation, a most handsomely appointed members' room, periodicals room and library - have been acquired on a twenty-one years' lease. The Chartered Institute is therefore assured of impressive and congenial quarters for a substantial interval in which consideration may be given to the decisions and plans regarding its final home.

The Association of Superannuation and Pension Funds

The thirty-first annual general meeting of the Association of Superannuation and Pension Funds was held on Friday, July 17th, at Caxton Hall, Westminster. The chairman of the association, Mr Henry Lesser, C.B.E., LL.B., F.C.I.I., presided.

The report of the council for the year ended December 31st, 1952, records a membership of 1,351 - the same figure as at the end of the previous year. During 1952 such matters as stamp duty relief, employment of older men and women, estate duty, payment of dividends without deduction of tax, and investment of pension funds have been under consideration.

The thirteenth conference of members was held last November. An address by Mr T. A. E. Layborn, C.B.E., on 'Modern developments in pension schemes' was followed by a discussion, the whole being subsequently issued in pamphlet form to members of the Association.

The officers and council elected for the year 1953-54 are as follows:

President: Mr John C. Mitchell, J.P., F.C.I.S.

Chairman: Mr H. Lesser, C.B.E., LL.B., F.C.I.I.

Vice-Chairman: Mr L. A. Ellwood, M.A., LL.B.

Council: Messrs A. L. Burnell, F.I.M.T.A., A.A.C.C.A.; L. Dow; G. H. Ross Goobey, F.I.A., F.S.S., F.I.S.; R. H. Hensman, F.C.I.S.; G. A. Hosking, F.I.A., A.T.I.I., F.I.S.; H. Chave Jones, A.C.A.; J. H. H. Nuttall, A.C.A.; B. G. Porter, D.F.C., F.C.I.S.; J. T. Price, M.P.

Professional Classes Aid Council

The thirty-second annual report of the Professional Classes Aid Council, presented by the Council's chairman, - Lady Cynthia Colville, D.C.V.O. - at the recent annual meeting, states that there was a deficit on the year's working of £1,192, which has been reduced only by drawing in £1,000 from a substantial gift made three years ago.

The report shows that a total of £13,245 was paid out in aid during the year ended March 31st. Fifty-three new cases were accepted for financial help, and these, together with re-applications and cases already current, made a total of 275 families receiving assistance. From the annual grant fund four new grants were awarded, bringing the total of those receiving them to 63 and the amount spent to £3,171. General help given during the year, to assist those in temporary difficulty, amounted to £1,717, while in the educational and training field, grants amounting to £5,152 were awarded.

The Council is composed of representatives of almost all the great professional bodies, and works in close association with their benevolent funds and institutions. Among the bodies represented are The Institute of Chartered Accountants in England and Wales, The Society of Incorporated Accountants and Auditors, and The Association of Certified and Corporate Accountants.

The Council's secretary for twenty-five years, Miss G. M. Walters, retired from office on August 31st last; she has been succeeded by Miss P. Roden who was appointed assistant secretary in May 1951.

The Birmingham Chartered Accountant Students' Society

The seventieth annual report of the committee of the Birmingham Chartered Accountant Students' Society for the year ended April 30th, 1953, records once again a most active year with a further rise in membership to make a new high total of 1,055.

A comprehensive programme of lectures was arranged in the autumn and spring sessions and five debates were held with other societies; visits were also made to several Midland firms. The Saturday morning lectures again proved of great benefit - three complete courses being run - while the ever-successful residential course at Ashorne Hill took place in October for the third year, with a record attendance of ninety-seven Final and Intermediate students.

The Society's annual dinner was held at *The Grand*

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Hotel in November, when 350 members and guests were present; other social activities were two well-attended dances.

At sport, a number of cricket, association football, rugby, and hockey matches were played – all with a fair measure of success for the Society; an inter-office doubles tournament at tennis was also held.

The policy of branch formation to cater for the 'district student' continued during the year – meetings being inaugurated at Hereford and Worcester. The activities of the Society are now carried on in six centres, the other branches and groups being at Coventry, Wolverhampton, and Stoke-on-Trent.

The following officers have been elected for 1953-54:

President: Mr D. F. Dodd, T.D., F.G.A.

Vice-President: Mr F. C. A. Ledsam, F.C.A.

Hon. Secretary: Mr A. B. Aspinall, Messrs Impey, Cudworth & Co, 5 Lower Temple Street, Birmingham, 2.

Hon. Asst. Sec.: Mr N. J. Masterton.

Hon. Treasurer: Mr F. J. Rolinson, A.C.A.

Hon. Librarian: Mr R. B. C. Waring.

Hon. Auditor: Mr C. W. Massey, F.C.A.

Committee: Messrs R. H. Cobham, A.C.A. (Chairman); C. H. Bailey; R. M. Brown; M. A. Charlton, A.C.A.; M. G. Frampton; H. B. Huntington-Whiteley; R. G. Hurdman; W. P. Kember; A. L. Smith, A.C.A.; J. Churms (Hon. Sec. Wolverhampton Area Branch); D. J. L. Cook (Hon. Sec. Coventry Area Branch); C. A. M. Sparrey (Hon. Sec., University Accounting Society).

Accountants' Crossword: Solution

The solution to the Accountants' Crossword by Kenneth Trickett, A.S.A.A., which appeared in last week's issue, is as follows:

ACROSS: 1. Irredeemable; 9. Rescind; 10. Surname; 11. Auditor; 12. Initial; 13. Vend; 15. Eightieth; 17. Restrained; 21. Rate; 24. Stencil; 25. Subsist; 27. Editing; 28. Arising; 29. Final Meeting.

DOWN: 2. Residue; 3. Exist; 4. Endorse; 5. Missing; 6. Barrister; 7. Examine; 8. Wealthy; 9. Real; 14. Direction; 16. Trustee; 18. Sheriff; 19. Illegal; 20. Testate; 22. Tuition; 23. Stag; 26. Built.

Insurance Statistics

A summary of statements of assurance business deposited with the Board of Trade during 1952 was published on July 31st.¹ The publication includes summaries of balance sheets, profit and loss accounts, revenue accounts for all classes of insurance business, and statements of new business and policies in force for life assurance and bond investment business. An improvement on the three previous issues of the summary to be published since the war, is the addition this year of a summary of accident claims

¹ H.M.S.O., 6s net.

paid and outstanding. A larger publication, *Statements of Life Assurance Business deposited with the Board of Trade during the year ended December 31st, 1952*, is in course of preparation.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 11TH, 1928

Extract from a leading article.

Accountancy in Japan

The miracle of the emergence of the land of the chrysanthemum from a state of barbarism to the front rank of civilisation has recently received another illustration. The Japanese Government has gone one better than at least one of the western nations, and has equipped its commercial community with a law for the regulation of accountancy.

In March 1927 there was passed through the Japanese diet as a Government measure a law intended to control public practice under the title of "Keirishi." An Imperial Ordinance was promulgated in September 1927 containing regulations for implementing this law, and as from that date the new arrangements have been officially in force.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 10TH, 1878

Extract from a Note in Passing

The Rights of Creditors

Creditors have so many rights, and have to defend them against encroachments of so many sorts, that a book might easily be written dealing with nothing else. Certainly a most useful work might be compiled, which would set forth the various rights of creditors that have been indisputably established in a court of law, besides being hazily set forth in legislative enactments. . . .

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The Accountant

ESTABLISHED 1874

AUGUST 15TH, 1953

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CONTENTS

Leading Articles	Page
Inside Information	181
The Finance Act, 1953 - II	182
A Proposed National Association of Practising Accountants	183
Special Article	
Equity and the Income Tax Acts by <i>Sidney I. Simon</i>	185
Lecture	
The Chartered Accountant in Industry by <i>J. Clayton, A.C.A.</i>	187
Weekly Notes	
New Member of the Council of the Institute - National Insurance (Industrial Injuries) Act - Private Trading in Copper - Better Car Exports - Lagging Coal Stocks	198
Taxation Cases	199
Finance and Commerce	
Renold and Coventry Chain Co Ltd - Accounts of the City of Durban, South Africa, and the City of Edmonton, Canada - British Empire Trust Co Ltd - Money Market	201
Correspondence	204
The Institute of Chartered Accountants in England and Wales	
Meeting of the Council	206
Notes on the Relation of the Internal Audit to the Statutory Audit	208
Findings and Decisions of the Disciplinary Committee	210
Notes and Notices	
Personal - Professional Note - In Parliament - Institute of Cost and Works Accountants - The Nottingham Chartered Accountant Students' Society - Office Equipment Exhibition in Wales - Office Management Association - Our Contemporaries - Twenty-five Years Ago - Seventy-five Years Ago	211

INSIDE INFORMATION

IN our issue of March 28th of this year we reproduced a lecture given by MR W. G. DENSEM, F.C.A., earlier in that month to the London Chapter of the Institute of Internal Auditors on the relationship which exists between the statutory auditor and the internal auditor; and, in a leading article in the same issue, we underlined the essential differences, as indicated by MR DENSEM, in the functions of the two offices. Because of the increasing number of organizations which now have an internal audit department, the Council of The Institute of Chartered Accountants in England and Wales has just issued, for the benefit of its members, some notes on the same subject which are reproduced elsewhere in this issue.

The Council stresses at the outset the exact meanings of the terms 'internal control', 'internal check' and 'internal audit', and it is essential for the external auditor always to keep clearly before him these definitions. It is not enough to remember that internal check and the internal audit are both forms of internal control or even to be able to recognize the broad principles of these two kinds of control. He must be familiar with, and able expertly to apply, the general theory to the (probably) highly individual systems of his own particular clients. Further, he must know beyond doubt where the external audit stands in relation to all this internal activity and how best he can safely make use of it. The existence of a strong system of internal control will be welcomed by the conscientious external auditor, not as an excuse for doing so much less detailed work but rather for the extra time it enables him to devote to the consideration of the more general aspects of the audit. It is not too much to say that the development of internal control by a progressive management is justified for the opportunity it gives the statutory auditor, in his comprehensive survey of the company's affairs, to make assurance doubly sure.

The Council's pamphlet states the field of relationship between the statutory auditor and the internal auditor and suggests how co-operation between them may best be achieved. On the first of these points, it is imperative that the external auditor should appreciate the fundamental differences in scope, approach and responsibility because it is only on the ground common to both that the co-operation of the internal auditor may be sought by him. It cannot be too strongly emphasized that, however objectively the external auditor may use this desirable amenity of his client's organization, he cannot evade the responsibilities which, by law, are his alone.

THE FINANCE ACT, 1953—II

Industrial Building Repairs

EXPENDITURE qualifying under Section 18 (1) may also enter into a claim for 'maintenance' relief under Schedule A. To the extent to which such expenditure increases the maintenance relief, it ceases to qualify for capital allowance and, accordingly, these allowances have to be revised again. As each block of expenditure will normally affect maintenance claims for five different years, revisions may be frequent (Section 18 (2)). This subsection is also retrospective except that it is not to increase assessments which were already final and conclusive by April 15th, 1953. Incidentally, the restriction in Section 18 (2) is expressed to apply only where maintenance relief is given by repayment. In practice it is often given by discharge from assessment. This will presumably be treated as a notional repayment.

Section 18 is to be construed as though it formed part of the industrial building allowance provisions (Section 18 (3)).

Section 19: Change of Proprietor of a Trade, etc.

Section 19 seeks to rationalize the somewhat obscure provisions dealing with the basis of assessment where a trade, profession or vocation changes hands. It replaces Sections 145 and 146 of the Income Tax Act, 1952, formerly Rules 11 and 9 of Cases I and II of Schedule D, the obscurity of which is historical in origin.

Section 19 (1): Automatic Application of Cessation Provisions

Section 19 (1) lays down a general rule that

'where in any year of assessment there is a change in the persons engaged in carrying on any trade ...'

the assessments on the profits are to be computed on the footing that the trade was 'permanently discontinued' on the date of the change and that a new trade was set up on the same day. Under Section 145 (2) of the Income Tax Act, 1952, now replaced, it had to be shown that a person or a partnership had 'succeeded' to the old trade and that subsection simply provided that the old trade was to be treated as 'discontinued' but this was in practice construed as meaning 'permanently discontinued' for the

purposes of bringing in the 'cessation' provisions in Section 130 (1).

The new expression 'a change in the persons engaged in carrying on' the trade could hardly be more vague. According to one philosopher, life itself is change. The expression is modelled on Section 145 (1) but that subsection deals with a change in a partnership and goes on to explain the kind of change in contemplation, as being 'by reason of retirement or death, on the dissolution of the partnership as to one or more of the partners, or the admission of a new partner.'

No doubt the draftsman of the new Section 19 (1) is aiming at changes of the same order but whether he has been successful in confining the sub-section to changes of this kind is open to doubt.

Section 19 (3) in any case makes it clear that a change in personal representatives or trustees carrying on a business as such is excluded from Section 19 (1).

Section 19 (3): Partnership Changes

Passing over Section 19 (2) for a moment, we find in Section 19 (3) a provision in some respects similar to the proviso to Section 145 (1), which it replaces. Section 19 (3) applies where a person who was engaged in carrying on the trade before the 'change' under Section 19 (1) continues to be so engaged immediately after the change, i.e. where a sole trader takes in one or more partners or there is a change in the constitution of the existing partnership with at least one of the old partners remaining. The persons engaged beforehand after the change can opt out of the cessation and commencement provisions, provided they all sign a notice in writing to that effect and send it to the Inspector within twelve months after the change. The proviso to the old Section 145 (1) gave right to opt *into* these provisions.

Section 19 (4): Continuing Basis after Partnership Change

Section 19 (4) sets out the effect of the notice under Section 19 (3). It replaces the unsatisfactory provisions of Section 146 and at the same time in effect reverses the decision in *Osler v. Hall & Co* ([1933] 17 T.C. 68; 11 A.T.C. 253).

The assessable profit is computed as though

the change had not occurred, i.e. on the continuing basis, and is then apportioned between the period before the change and the period after it. Two separate assessments are then made in these two separate amounts; one on the persons carrying on the trade etc. before the change, one on the persons carrying it on after the change. In other words, there is no longer an apportionment of the assessment itself.

The apportionment of the profit will normally be on a time basis, but not necessarily so, for the subsection directs that the profit be apportioned 'as may be just'. However, apportionment on a

basis other than time is not likely to be suggested by the Revenue, and if a taxpayer claims it, he will have to show that in the particular circumstances of the case it is more just than the time basis. Questions as to the manner of apportionment are to be decided as laid down by Section 329 (1) of the Income Tax Act, 1952. That is, they are to be dealt with in the same way as Schedule D appeals, except that all the persons concerned may either appear and be heard or may make representations in writing to the Appeal Commissioners (Section 19 (4) (a)).

(To be continued.)

A PROPOSED NATIONAL ASSOCIATION OF PRACTISING ACCOUNTANTS

ELSEWHERE in this issue we publish a letter submitted by the promoters of a proposed National Association of Practising Accountants, together with one that has been sent by the promoters to the Councils of four recognized accountancy bodies. The Institute of Chartered Accountants in England and Wales is the first of those approached to make known its attitude to the proposal and we have reproduced the reply authorized by the Council.

'Registration' is stated to be the primary object of the proposed association. The promoters consider that 'previous attempts at registration have failed owing to the lack of a unified body which can speak directly for and exercise authority in the name of all practising accountants'. Those who laboured long and hard on the Co-ordinating Committee of the recognized bodies may be excused the ebullience with which they have no doubt reacted towards so ill-founded a criticism of them. Clearly, the proposed association could take no step which has not already been taken, or could be taken, by the Co-ordinating Committee, unless of course the promoters have in mind a kind of supreme soviet which would act without ascertaining by normal methods the wishes of all practising accountants holding recognized qualifications.

We shall not review here the long history of the draft Public Accountants Bill and the difficulties which led to its abandonment. It is sufficient to say that the Bill was accompanied by an

explanatory memorandum when issued in 1946 to all members of the sponsoring bodies; and that the decision in 1951 to abandon the Bill has been explained in various presidential statements. The history of the matter contains not a shred of evidence to support the view now advanced, by the promoters of the proposed association, as to the cause of failure.

But even if the promoters were right in their view, what is the remedy they suggest? They would have all public accountants—including those who are not members of recognized bodies—join together in one association with the primary object of promoting legislation for registration. Do the promoters seriously believe that practising members of the recognized bodies would be so disloyal and so heedless of their own interests as to act through such a polygenetic association, on so fundamental a subject as registration, without the wholehearted support of their respective bodies? If such support were forthcoming, the action contemplated could be pursued by the Co-ordinating Committee itself. If such support were not forthcoming, a bitter conflict would exist between the proposed association and the recognized bodies. Can the promoters be in any doubt about the outcome of such a conflict?

So much for the primary object. What then of the other objects? The second object is 'representing the unified interests of practitioners, and the protection of the interests of practising accountants generally'. The promoters give no

indication of the kinds of situation which they consider to have arisen in the past and to have resulted in detriment to the profession because of incompetence on the part of the recognized bodies. These bodies have frequently demonstrated their readiness, when necessary, to co-operate closely on matters affecting the profession as a whole.

'Information on the conduct of practice' is the third object. It is well known that none of the recognized bodies purports to provide an official advisory service to which members can put specific problems arising in their practices. Anyone who has given thought to the way in which such a service would have to be administered may well doubt whether it would add much of real value to the existing sources of information available to members of recognized bodies. What are these sources? They include summer schools, and other conferences, district society meetings and similar functions, all providing opportunities for discussion in groups and in private; the published papers given at such functions; recommendations of the Council of the English Institute and other technical publications of the recognized bodies; informal advice obtainable from fellow practitioners through arrangements which exist for this purpose; and, indeed, the columns of this journal.

Object number four is 'to give guidance on fees'. We are not sure whether this is merely amplification of the third object (information on the conduct of practice) or whether the promoters envisage the launching of scales of fees. If scales are contemplated, the support of the recognized bodies would clearly be necessary to endow the scales with any practical value. On scales, therefore, as on registration, we think the proposed association could do nothing which it is not open to the recognized bodies to do (as indeed they have in relation to approved auditors and in relation to work for government departments) whilst if the proposed association came into conflict with the recognized bodies their members would know where their loyalty lay.

The fifth object is 'to organize pension schemes for the benefit of practitioners and their staffs'.

No. 2 Committee is available, the recognized bodies will examine the possibilities to which the committee's recommendations give rise.

Perhaps the most surprising object is number six, 'to facilitate the transfer of accountancy work from unqualified persons to our appropriate members'. Just what is contemplated is anybody's guess, but our surprise springs mainly from the fact that the promoters have made it clear that the membership of the proposed association would include unqualified persons.

We make no comment on the seventh and last object, 'to obtain benefits on practice costs for members', beyond saying that the more we try to discern the meaning the more elusive it becomes.

Speaking generally of objects two to seven, the promoters have suggested to the Councils of the recognized bodies that the Councils' interest in these fields has been 'limited and recent' and that they 'have approached these problems from a predominantly academic standpoint'. Such statements, combined with the general sketchiness of the proposals as a whole, seem to us to indicate a lamentable remoteness from reality. A sympathetic reception was scarcely to be expected.

Indeed, the general tenor of the letter to the Councils of the recognized bodies was not calculated to disarm by tactful expression. For the promoters of an association not yet in being to suggest to the Councils that the association might co-operate 'by relieving you of some of your activities *which impinge on some of ours*' was audacious enough to risk a rebuff even if the proposal itself had been possessed of merit.

By seeking publicity for their proposal, the promoters have made it clear that they have greater confidence in themselves than in the Councils of the recognized bodies. The terse and uncompromising reply from the Council of the English Institute will cause no surprise. The Council cannot be expected to take kindly to a proposal designed to draw the practising members of the Institute into some form of 'trade association' whose primary object is to seek registration and whose other objects are to undertake activities closely allied to some that have become well established features of the work of the

EQUITY AND THE INCOME TAX ACTS

by SIDNEY I. SIMON

THE House of Commons recently gave an airing to the problem of companies which avoid taxation by artificial cessations. The method employed is the relatively simple one of changing the basis of assessment by transferring the business to a new company formed for the purpose. There may well be remedial legislation in the future, but provided an avoidance scheme is legal, in so far as it concerns *income-tax* the Revenue are at present powerless to prevent it. This, of course, ignores specific provisions where a particular section may provide that a certain state of affairs shall be *deemed* to exist.

Contrast

'Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax',

said Lord Tomlin in *Duke of Westminster v. C.I.R.* ([1935] 14 A.T.C. 77, 85; 19 T.C. 490, 520).

A contrasted line of approach came from Viscount Simon, L.C., in *Latilla v. C.I.R.* ([1943] 22 A.T.C. 23; 25 T.C. 107, 117).

'My Lords, of recent years much ingenuity has been expended in certain quarters in attempting to devise methods of disposition of income by which those who were prepared to adopt them might enjoy the benefits of residence in this country while receiving the equivalent of such income, without sharing in the appropriate burden of British taxation. Judicial dicta may be cited which point out that, however elaborate and artificial such methods may be, those who adopt them are "entitled" to do so. There is, of course, no doubt that they are within their legal rights, but that is no reason why their efforts, or those of the professional gentlemen who assist them in the matter, should be regarded as a commendable exercise of ingenuity or as a discharge of the duties of good citizenship.'

It seems to rest with the individual to choose between the two, although it should be remembered that, in the picturesque words of the Lord President (Clyde), in *Ayrshire Pullman Motor Services and D. M. Ritchie v. C.I.R.* ([1929] 8 A.T.C. 531, 537; 14 T.C. 754, 763),

'No man in this country is under the smallest obligation, moral or other, so to arrange his legal

relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores'.

No Equity

Assuming a taxpayer has arranged his affairs so as to walk outside the taxing acts, is he open to attack before the Commissioners or before the Courts on the grounds that his non-liability to tax is inequitable? This line of approach has been tried in the past and found to be wanting.

'Equity and income-tax are strangers', said Lord Sands in *C.I.R. v. Granite City Steamship Company Limited* ([1927] 6 A.T.C. 678, 681; 13 T.C. 1, 16).

Rowlatt, J., in *Cape Brandy Syndicate v. C.I.R.* ([1920-21] 1 A.T.C. 293, 297; 12 T.C. 358, 366) put it this way:

'... in taxation you have to look simply at what is clearly said. There is no room for any intendment; there is no equity about a tax: there is no presumption as to a tax; you read nothing in; you imply nothing, but you look fairly at what is said and at what is said clearly and that is the tax.'

The facts in *Kliman v. Winckworth* ([1933] 12 A.T.C. 119; 17 T.C. 569) were that the taxpayer who had obtained a divorce from his wife claimed 'housekeeper' allowance under the then law (Section 19 (1) Finance Act, 1920), and before the Commissioners he succeeded. The decision of the Commissioners included this:

'On the grounds mentioned and in equity we directed that the "housekeeper" relief be granted.'

Finlay, J., reversing their decision, thought that the Commissioners had been 'led astray by perhaps a very natural sympathy'. He found that the grounds did not support the claim and he added:

'I am not quite sure what they mean by the words "in equity", but it is, of course, elementary that in these cases what one has got to do is to look at the exact words of the section which gives an exemption and ascertain whether the person brings himself within it. There is no room, of course, in a Taxing Act for equitable considerations, if by "equity" the Commissioners meant there, as I suppose they did, considerations of what they conceived would effect a just result in all the circumstances. It is, of course, for the legislature and not for the Courts to consider matters of that sort.'

It might be pertinent to add here that the

legislature must be assumed to have said what it intended and that a Court may not assume that the legislature has made a mistake.

'You cannot impute what you may think the legislature may or may not have meant; you are bound by the words as to what they have done and what they have not done.'

(Lord Hanworth, M.R., in *Dewar v. C.I.R.* ([1935] 14 A.T.C. 329, 332; 19 T.C. 561, 572).

Form and Substance

If the Revenue is precluded from laying on a charge, and the taxpayer is precluded from claiming relief, by a regard purely to equitable considerations, the next matter for consideration is whether either party is entitled to claim that the Commissioners and indeed the Courts should look at the substance of a transaction rather than at its form. Once again to quote Viscount Simon, this time in *C.I.R. v. Wesleyan and General Assurance Society* ([1948] 27 A.T.C. 75, 76; 30 T.C. 11, 25):

'It may be as well to repeat two propositions which are well established in the application of the law relating to income-tax. First, the name given to a transaction by the parties concerned does not necessarily decide the nature of the transaction. To call a payment a loan if it is really an annuity does not assist the taxpayer, any more than to call an item a capital payment would prevent it from being regarded as an income payment if that is its true nature. The question always is: what is the real character of the payment, not what the parties call it. Secondly, a transaction which, on its true construction is of a kind that would escape tax, is not taxable on the grounds that the same result could be brought about by a transaction in another form which would attract tax.'

An exhaustive consideration of this question of form and substance was given by the House of Lords in the *Duke of Westminster's* case. The rule then laid down has on many occasions since been referred to by the Courts. The principle is this. The vital element in a transaction is its substance whatever the form. The substance is the legal effect of the mutual arrangements between the parties whether written or not. It is this legal relationship which is of the essence and once it has been established it is not permitted to either party to claim that he intended something else which would have produced the same practical result. The best example lies in consideration of a partnership, see *Dickenson v. Gross* ([1927] 6 A.T.C. 551; 11 T.C. 614) and *Fenston v. Johnstone* ([1940] 19 A.T.C. 62; 23 T.C. 29) in which case

Wrottesley, J., quoting from an earlier decision said (at pages 66 and 35 respectively):

'It is not in the least conclusive that the parties have used a term or language intended to indicate that the transaction is not that which in law it is.'

But provided the documents are bona fide and intended to be acted upon and not merely used as a cloak to conceal a different transaction then it is not possible for either party, i.e. the Revenue or the taxpayer, to go behind them.

Lord Tomlin, in the *Duke of Westminster's* case, at 14 A.T.C., page 85; 19 T.C., page 520, put it in a nutshell:

'This so-called doctrine of "the substance" seems to me to be nothing more than an attempt to make a man pay notwithstanding that he has so ordered his affairs that the amount of tax sought from him is not legally claimable.'

Although it is a well-established rule that the surrounding circumstances must be regarded in construing a document it must always be borne in mind that it is the document *itself* that the Court has to construe.

Tax Avoidance

Even if the avoidance of income-tax or sur-tax is an element in a transaction it does not necessarily mean that the transaction is thereby open to attack. In *Whitmore v. C.I.R.* ([1925] 5 A.T.C. 1; 10 T.C. 645), where a shareholder in a company had received a bonus in debenture stock, Rowlatt, J., after referring to the finding of the Commissioners said:

'If what is meant is that the company adopted this transaction, being a real transaction, and one which does not make the shareholder liable to super-tax, in lieu of another transaction which would have made him liable, that circumstance has no materiality, as many cases show, in a contest of this kind.'

And in the *Ayrshire Pullman Motor* case Lord Sands said (8 A.T.C. 538; 14 T.C. 765):

'My first impression with regard to the case was that the case for the Crown was to be that this was a simulate transaction. It is scarcely doubtful there was an element in the transaction and the arrangement for avoiding payment of income-tax. But all such arrangements are not simulate.'

It will be appreciated that vastly different considerations arise in relation to profits tax and excess profits levy in view of the anti-avoidance provisions of Section 32 of the Finance Act, 1951, which is extended to excess profits levy by Section 69 of the Finance Act, 1952.

THE CHARTERED ACCOUNTANT IN INDUSTRY

by J. CLAYTON, A.C.A.

'Accountancy offers ample scope for differences of opinion.'

GILBERT SHEPHERD

Introduction

DURING the last two decades, the important role of accounting and the accountant in industry and commerce has increasingly impressed itself upon both the business community and the accounting fraternity. That intrepid pioneer, Mr F. R. M. de Paula, recently gave an excellent résumé of the historical reasons for the growth of industrial accounting.¹ *Per contra*, Sir Charles Renold, in an apt and oft-quoted extract from one of a series of lectures on 'Management and the accountant', defined thus the causal relation between industry and accounting:

"The extreme importance of the technique of accountancy lies in the fact that it works in the most nearly universal medium for the expression of facts, so that facts of great diversity can be represented in the same picture."²

Moreover, there is also a growing understanding of the interdependence of publicly practising and industrial chartered accountants in carrying out the supremely important function of making accounting 'the handmaid of management'.

'In our view the accountancy profession will be expected, in the future, to play a prominent part in the improvement and development of the cost accounting methods employed by industrial undertakings.'³

An address delivered on July 11th, 1953, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

¹ In a paper contributed to the Third Session - 'The accountant in industry' - of the Sixth International Congress on Accounting. See pages 231 to 236 of the Report of the Congress Proceedings published by the Congress and printed by Gee & Co (Publishers) Ltd, and *The Accountant*, July 19th and 26th, 1952, at pages 70 and 95.

² From the address by Sir Charles Renold, 'Management and the accountant' - Gee & Co (Publishers) Ltd, at page 22 - a series of lectures to the London and District Society of Chartered Accountants, and *The Accountant*, November 27th, 1948, at page 428.

³ *Developments in cost accounting* (The Institute of Chartered Accountants in England and Wales), page 48.



Mr J. Clayton, A.C.A.

In consequence, there has been a spate of exemplary papers on management accounting. They include, in addition to the publications referred to above, papers given at the summer courses; and others read before various district societies of chartered accountants and published from time to time in *The Accountant*.

Many of the foregoing papers have been written by members of the Institute who are, or have been, members of the Taxation and Research Committee. I regard myself as fortunate in having had the many opportunities, thereby available, of discussing with them the various aspects of industrial accounting in which they have made their significant contributions to the pool of accounting experience and knowledge.

So much valuable ground has been covered by those papers, with which I am sure you are all familiar, that I intend, as far as practicable, to refrain from covering the same ground again in this paper. Where this is unavoidable I shall endeavour to make the necessary points by quotation from those expert treatises; contenting myself, in the main, with trying to evaluate some of my own experiences, in

the hope that a knowledge of problems I have encountered may help others to avoid some of the tribulations of me and my contemporaries during the past quarter-century. You will appreciate, therefore, that except where otherwise stated, I shall - despite the title of my paper - be recounting the experiences and expressing the views, primarily, of one chartered accountant in industry.

Before, however, resorting to personal experience, I intend to adumbrate certain basic principles and processes of accounting. To those of you who find these too elementary, may I pass on the advice of Heine:

'If you who read become tired of the "stupid" stuff herein, just think of the dreary time I must have had in writing it. I would recommend you, on the whole, once in a while to skip half a dozen leaves, for in that way you will arrive sooner at the end.'

Basic Principles

There are many ways in which mankind can be distinguished from the remainder of the animal kingdom. But man distinguishes himself from other animals by his work. So it is with the chartered accountant in industry. He must first and foremost be a 'craftsman'; he must be competent and thorough in his work. This requires a clear understanding of a few – a surprisingly but insufficiently understood few – basic principles; and their application. Mr Fea, in his 1949 paper,¹ described accounting as 'both a science and an art' – the science of recording and the art of interpretation. Before, therefore, his art of accounting may flourish and bring forth fruit, the industrial accountant must be sure of the scientific basis of his recording.

In essence the science of accounting is a very simple thing – it consists in only four elements. First a simple definition – accounting is a method of recording all transfers of value. Next, let us establish that double entry is not just a trick to confuse the uninitiated but merely a recognition of the dual aspect of every transfer – a come-from and a go-to. 'The quality of mercy is not strain'd. . . . It blesseth him that gives, and him that takes. . . .'² Next, consider the two primary accounts, the ME and the YOU account – the effect of each transfer on the relevant person (or business) and the outside world respectively. Finally, the remainder of the science of accounting is concerned with an analysis of the ME account.

Similarly, the basic accounting processes are equally simple of cognition. There are only four – or five – distinct accounting processes. First, recording – or entry; next, calculation – the addition of multiples of a common unit; next, analysis, followed by the aggregation of common transactions; and finally, copying.

Accounting, therefore, is essentially a simple science embracing few distinct processes. Its intricacies are not inherent in itself but merely reflect the complications of the world in which we live.

Accounting as an art is essentially pictorial – the presentation of the scientifically prepared data in coherent pictures, either:

- (a) photographic – is it true and fair? or,
- (b) propagandist – what is to be done?

A thorough grasp of the basic principles and processes of the science – and an understanding of the scope of the art – of accounting are essential for the solution of the many complex problems which confront a chartered accountant either in public practice or in industry. Hence the supreme value of the chartered accountant's basic training and the oppor-

tunities thereby afforded of studying both the science and the art of accounting exemplified in a variety of different businesses.

Application of Basic Principles

The first concern of the industrial accountant must be accuracy, speed and economy in his basic record. Priority must be given to the YOU account – the relation with the outside world – the quick and accurate computation of debtors and creditors; the collection and discharge of accounts receivable and payable; the computation and payment of wages and salaries; the ready ascertainment of bank balances (a YOU account, not a ME account).

The basic records must also encompass the 'other side' of each of the transactions with the YOU account – the internal aspect of each transfer – the stock, cost (using the word generically) and cash accounts. An efficient control of cash and stocks is a *sine qua non*.

To avoid misunderstanding, I should explain that the priority I have in mind is that analogous to the foundation of a building, the true worth of which subsists in the usefulness of its superstructure.

What Type of Record

Before long the industrial accountant will become involved in a never-ending controversy as to whether – more accurately, to what extent – his records should be mechanized. Here an understanding of the basic accounting processes is important. I have already described five basic processes and they may be further generalized into writing (entry and copying), adding (for calculation is merely a specialized form of addition) and sorting. Apart, therefore, from this last function of the complexity of business records, the basic accounting processes are writing and adding – and the basic mechanical aids to accounting are the typewriter, the abacus and their progeny. For example, if you look at Powers and Hollerith tabulators, it will be evident that the former is a printing machine which has been modified to enable the printing sectors to actuate adding devices, while the latter is an adding machine coupled to a separate device for writing out the results of the summations.

In order, therefore, to appraise the uses of mechanical methods of accounting, the accountant must first dissect his problems to determine whether he is suffering from a plethora of writing, of adding or of sorting. Next he must satisfy himself that all the entries or calculations or summations or copies are really necessary. For example, my own group of companies, which has a major problem of recording dues from and payments by subscribers, has now reached the general conclusion that, as the majority of subscribers pay with commendable regularity, it will suffice not to record the norm of payment but merely the abnormality of non-payment – a system of 'negative-entry' which has eliminated a substantial part of our records. Finally, one last word of advice on mechanization. If you are to get the best

¹ A paper by W. W. Fea, B.A., A.C.A., on 'The presentation of accounting statements for management' (The Institute of Chartered Accountants Summer Course, 1949, at page 99). Reproduced in *The Accountant*, August 27th, and September 3rd, 1949, at pages 216 and 243.

² Shakespeare: *Merchant of Venice*, Act IV, Scene 1.

results out of an accounting machine or series of machines, you or one of your staff must make a careful study of the 'logic' of the machine, and not rely wholly on the machine expert who has not your expert knowledge of your business and accounting system. In this way you will find it possible to adapt the machine to your needs with the minimum of adaptation of your methods to suit the eccentricities of the machine.

The Integration of Financial and Cost Records

I have already referred to what I regard as the few basic principles and processes, remarking that they are insufficiently understood. If proof were needed, I would draw attention to the significant fact that—despite the clear formulation in the Institute's 1947 booklet, 'The cost and financial accounting records should be integrated and complementary, two parts of one whole'¹—integration of records is still a matter of current exhortation, not just at students' lectures, but at discussions as exalted as the summer courses and even the recent international congress. For example:

'costing and financial records are, *or should be*, only different arrangements of the same basic figures.'² (My italics. — J. C.)

On returning to industry, some fifteen years ago, as accountant to a company engaged in building and civil engineering contracting, I was not surprised to find that the financial and cost records were independent entities and that a major year-end problem was their reconciliation. Accordingly, a control journal was introduced as an essential focus of the integration of the records. The principal entries were derived from journal vouchers prepared by the heads of the invoice, sales, wages and cash departments, summarizing the transactions of the week and analysing their totals over the various ledgers. In addition, the remainder of the week's 'transfers of value' were encompassed in another half-dozen or so vouchers. That journal underwent many changes during the next eight years until—like Bottom—it was 'translated'. During one period it became the linchpin in a fully mechanized system designed primarily for A.R.P. purposes. Finally, the journal achieved what I believe to be its present form, when the columns were regrouped in such a way that the meaningless total columns were eliminated, asset and liability ledgers grouped on the left-hand (debit) side and income and cost ledgers on the right, involving positive (black) and negative (red) entries. The single column was in the middle and contained an entry only as a result of a transaction involving an increase or decrease in net assets and, therefore, following the dictum in the *Spanish Prospective* (case), a profit or loss. Accordingly, the journal became a running profit and loss account, and the totals cumulated.

time merely the entry of residuals and accruals for the extraction of a periodic statement of profit and loss. Appendix A outlines the final form of the control journal. [See page 195—Ed.]

I need hardly add that I regard the integration of financial and cost records as one of the cardinal principles of industrial accounting.

Industrial Functions of the Chartered Accountant

The functions of the chartered accountant in industry fall broadly under the following headings:

- (1) The provision of financial answers to four critical questions:
 - (a) What has happened — financial accounting;
 - (b) How it has happened — cost accounting;
 - (c) Why it has happened — standard costing and budgetary control;
 - (d) What is likely to happen — forecasting.
- (2) The administration of things.
- (3) Cost 'ascertainment' for contract and other purposes.
- (4) Representation at trade associations etc.
- (5) Company secretarial work.
- (6) Management proper.

What has Happened

The end-product of financial accounting is the annual profit and loss account and balance sheet. Today the industrial accountant cannot complain that he lacks guidance on methods of presentation and the over-riding question—Is it true and fair? When first I entered industry there was little to guide us other than the opinion of the auditor (whose experience and outlook may—or may not—have been wider than one's own) and the trail-blazing activities of a few accountants on both sides of the Atlantic. Nowadays, guidance on almost all aspects of presentation is provided by the Institute's Recommendations on Accounting Principles, the Companies Act, 1948 (incorporating many of the Institute Recommendations), and the Institute's booklet thereon, as well as other publications of the Institute and its members dealing with consolidated accounts,³ stocks,⁴ and the form and content of directors' reports, profit and loss accounts and balance sheets and many kindred problems.

One of the serious duties of the chartered accountant in industry is his own responsibility for the 'true and fair' aspect of the annual accounts. Although in fact and in law the accounts are those of the directors and to the owners of the business, the chartered accountant is the employee who has taken a major

part in the preparation of consolidated accounts (The Companies Act, 1948, s. 235, England and Wales).

part in the preparation of those accounts cannot – and I believe does not seek to – evade his professional responsibility for such accounts.

It is, of course, extremely difficult to draw a precise line between taste and form (on which the chartered accountant in industry may have to accept the dictates of others) and matters of serious content and principle on which, if required, he must be prepared to take his stand. The essence of this matter was stated recently by a distinguished American accountant as follows:

'It seems quite generally accepted practice in the United States for the chief accountant to report directly to the chief executive of the enterprise. If, however, the occasion arises wherein he finds himself faced with instructions from his superior which would require him to do something which he, as a trained professional man, knows he ought not to do, his course of action must be quite clear. He must (i) either convince the superior officer of the necessity for conforming to proper and accepted procedure or (ii) resign.'¹

The 'How' and 'Why' of it

Apart from the question of forecasting, which I shall touch upon shortly, the provision of financial answers to the two questions 'How it has happened' and 'Why it has happened' represents the most important contribution of industrial accountancy to management. It is the true *métier* of the chartered accountant – *qua* accountant – in industry.

The most difficult mental transition which the chartered accountant, entering industry for the first time, must accomplish is that of learning to live in the different climate in which management accounting statements are produced. In the words of Mr L. W. Robson:

'I suppose there were times . . . when industrialists awaited the . . . preparation of their annual accounts with . . . breathless excitement in their concern to ascertain the progress achieved . . . during the . . . year . . . but in our time . . . Management . . . demands financial control information at much shorter intervals of time. . . .'²

The contrast between financial accounting and management accounting has been vividly described by Mr Fea:

'When drawing up annual accounts the objective is to give information to the shareholders. . . . But no one *does* anything. . . . How different is industrial accounting. It aims at action, it must be inspired by action and if it fails to provoke action it fails altogether in its purpose. So accounting statements for management must be streamlined and hard-hitting; they must tell the truth and spare nobody, but they must not needlessly irritate.'

There is such a sharp conflict between the reporting to which one becomes accustomed in public practice and that which one has to learn in industry that it may seem remarkable that so many chartered accountants have successfully made the transition from public practice to industrial employment. The reason was, I think, given by Mr Shepherd who said:

'Many of them – i.e. members of the Institute – have left the field of public accountancy but they have carried with them the twin principles of service and integrity. . . .'³

But as with patriotism to Nurse Cavell, the moral qualities are not enough. To fulfil his mission of making accounting the 'handmaid of management' the chartered accountant in industry must learn – and quickly – new techniques, namely:

- (1) The technique of *significant* cost classification (the 'how' of it).
- (2) The technique of standard costing and budgetary control (the 'why' of it).
- (3) The technique of marginal costing (the ascertainment of the break-even point).
- (4) The technique of organization, delegation of responsibility and staff control (how to organize the job).
- (5) The technique of forecasting (what is likely to happen).

As regards the first four techniques I do not intend to cover again the ground so ably surveyed by others, but a few comments would not, perhaps, be unwarranted. First, the chartered accountant in industry must understand that few – if any – accounting statements are strictly accurate. They must of necessity include estimates and approximations. The important thing is to accept that degree of estimation and approximation which will permit the production of a significant statement in sufficient time to enable remedial action to be taken:

'Speed is essential, and speed entails brevity in reporting.'⁴

Then again, although I do not profess to be expert in standard costing, I would like to emphasize that it is not a 'mystique' but comprises the application of certain simple principles *either wholly or in part*. Most important are:

- (1) The integration of financial and cost records.
- (2) The allocation of expense to 'cost centres', i.e. activities rather than end-products.
- (3) Prior estimation (i.e. budgets) of the costs in terms of direct materials, direct labour and overhead expense.
- (4) Prompt reporting of divergencies from the

¹ Mr Clinton W. Bennett, C.P.A., *Proceedings of the American Congress on Accounting*, page 287.

² Mr L. W. Robson.

Mr Shepherd, M.B.E., F.C.A. – 'The future role of the accountant' to the Australian Congress on December

statements organization

budgets ('control by exception') in such a form that the 'how' and the 'why' and personal responsibility for divergencies (leading to remedial action) are determined.

- (5) Flexible budgets, showing estimated costs of end-products at various levels of activity as a means of determining sales policy.

Moreover, they are applicable, in my view, to large, medium and small undertakings. It is significant to note that the accounting organizations of some of the huge national monopolies are under the control of chartered accountants seized with the importance of modern accounting techniques. For example:

'... the most useful contribution to industrial efficiency which the accountant can make is in the development of standard costs'.¹

Then again:

'... it is probably only by adopting this technique that accountancy can make its most productive contribution to industrial management.'²

As regards partial application, I recently visited an electronic factory which has not found it convenient to abandon product costing. Nevertheless, it applies many of the principles of standard costing. The work on each product is organized in batches. Technical estimates (including a wastage allowance) are made of the direct material content of each batch and no issue of additional materials is permitted without a specially coloured form, the issue of which leads to an immediate inquiry into the cause of the excess. Wages are mostly on a piece-work basis, the piece-work prices being calculated to produce for optimum production in each 'shop' or cost centre a given percentage excess over basic time wages. Each week the relation between piece-work rates and time rates for each shop is studied to ascertain the causes of any divergence from 'standard'. 'Overhead recovery' for each shop is based upon a calculated optimum level of production and the weekly excess or short recoveries investigated accordingly.

Finally, some of you may remember the homely illustration I gave in a recent paper of the type of standard costing and budgetary control practised throughout many generations by the Lancashire housewife. She divides her money at week-end into several parts – the rent money housed in the tea-caddy and the 'club' money in Aunt Mabel's present from Blackpool. The important part of her pioneering accounting technique is that if the tea-caddy is found to be prematurely empty, the deficiency must be located and corrected before the rent collector calls on Monday.

on what you mean by forecasting. Forecasting, in the sense of forward planning, is an essential (conscious or subconscious) feature of all business activity. My personal preference is for the simple word budget – 'an expression of intentions'³ – but in modern accounting nomenclature the word 'budget' has been appropriated for use in the term 'standard costing and budgetary control' to denote the detailed budgets, usually for short periods, essential to such a system. Then again, there are two types of 'budgets' – fairly accurate short-term estimates and longer-term 'guesstimates' of the less foreseeable future.

Whether or not standard costing techniques are applied, it is becoming customary for the more progressive businesses to use a system of short-term (six to twelve months) 'budgets' projected into long-term (two to five years) 'forecasts'. Performance against budget is usually measured with each issue of periodic (weekly or monthly) accounting statements, but forecasts are usually checked-up and revised at longer (six to twelve months) intervals, unless some radical change occasions an interim revision.

In describing such a system, recently, Mr Ravenhill used the expression 'forecasting' and I have adopted it for the want of a better, particularly as I agree with his conception: 'Forecasting divides itself into three major elements, (i) periodic trading estimates, (ii) cash estimates, (iii) capital expenditure estimates ... so that all the figures eventually tie up when the overall position is being considered.'⁴

The main uses of these forecasts are:

- (1) As an overall check on the efficiency of the higher management – the contrast of the attained with the attainable.
- (2) As a conspectus of possible future developments – 'raising the sights'.
- (3) As a review of the physical and financial resources and prospective claims on them with a view to their supplementation, if required, in due time – determination of financial policy.
- (4) As a basis of directives to buying, building, equipping, producing, personnel, advertising and selling departments – co-ordination of supply and demand.
- (5) As a basis for reviewing dividend policy – can we maintain it?

Forecasting is in consequence one of the most advanced developments of the art of accounting. It calls for co-ordination of the estimates of all sections and divisions of the business (involving market and

give the plan its blessing and the managing director give the necessary directives for its implementation.

The Administration of Things

The first few months, after the chartered accountant takes up a new industrial post, represent a never-to-be-forgotten experience. On the one hand they are very critical days in which the vital decision is reached as to whether he can 'make a go' of it. Can he do the job to his own satisfaction; to that of his employers? Can he find the proper basis of relations with his immediate superior (or superiors); with his colleagues; with his staff? Does he find himself confronted with the dire prospect of making an early stand on principle? Is he gnawed by misgivings as to whether he was wise to make this leap into the dark?

So far as my experience, and that of many of my friends, may be used as a guide, one of three situations is likely to emerge fairly quickly, viz.:

- (1) He finds that, for whatever reason, he is not 'making a go' of the job;
- (2) He is getting on well but finds himself forced to make an early stand on principle;
- (3) All goes well.

In the first case he must, without hesitation, get out before he becomes demoralized, even if 'protected' by a long-term service agreement.

In the second case, the probability is that, if the stand on principle is justified, if he is firm, if he makes sure first of all of winning over the auditors to his point of view (one of the critical and most difficult points), if he is tactful and diplomatic – above all, if he is already doing a conscientious craftsmanlike job – he will survive and consolidate his position.

The third case is the most usual and happiest one. He is passing through halcyon days. In all probability he takes over an accounting system as a 'going-concern' and the new incumbent is quietly contemplating how he will transform it into something nearer his heart's desire. The honeymoon period must not, however, be unduly prolonged. Before long he will become immersed not only in the 'temporary' disorder of his own modifications, but, as his qualities commend him to his superiors, he will find himself attracting a hundred-and-one extra jobs, strictly outside his role as accountant.

Leaving aside for a moment the duties of a company secretary, the duties of a chartered accountant in industry may range far and wide. They are almost certain to include (with or without the help of an accountant in public practice) the settlement of the company's taxation liabilities. They may include collection of accounts and credit control, insurances as regards cover, premiums and claims (although these fall normally within the function of the company secretary), payment of wages and salaries, including the deduction and accounting for tax under P.A.Y.E., administration of sickness, holiday, superannuation and other welfare funds. As account-

ant to a building company I found myself administering several large blocks of flats, while for similar reasons, an accountant friend is licensee of one of London's most famous hotels.

Taxation

(a) General

The total weight of taxation in this country – approximating to 8s in the £ of income – is so oppressive as to create serious misgivings to all who have the welfare of the community at heart. Almost as disquieting is the squandering of valuable manpower on tax determination, owing to the labyrinth of tax legislation and the uncertainty of its incidence.

"There can be few public accountants in this country who do not view with considerable disquiet the extent to which the complications of our taxation laws require the skilled services of accountants and the Inland Revenue staff."¹

Many instances occur of issues which ought to be settled on proper commercial considerations, but the irrational impact of taxation prohibits such a proper and logical course of action. For example, if a company wishes to raise additional capital by the issue of prior-charge securities, commercial considerations of the risks attaching to the new venture might suggest an issue of preference shares. There has, however, been an increasing tendency in recent years for issues of prior-charge securities to be in the form of debentures or notes, because of the impact of profits tax.

"It is not surprising that individuals and officers and directors of companies need advice so that they may avoid arranging their affairs and transactions in a manner which involves them in unnecessary taxation."²

I believe that, apart from his duties to his clients or employers, a chartered accountant has a serious social responsibility to urge not only a rational climate – but also rational forms – of taxation.

(b) Companies

In its evidence to the Tucker Committee and to the Royal Commission on Taxation the Institute submitted, *inter alia*,

- (i) That profits for income-tax purposes should be computed on generally accepted accounting principles.
- (ii) That the basis of assessment should be the actual income of the year of assessment.
- (iii) That profits tax should be abolished or ameliorated.
- (iv) That, because it impedes efficiency and expanding industries, creates a heavy admini-

¹ Mr Gilbert D. Shepherd (op. cit.).

² Mr T. B. Robson, M.B.E., M.A., F.C.A. – 'Some present-day aspects of public accountancy in the United Kingdom' (a paper read before the American Institute of Accountants and reproduced in *The Accountant*, October 11th-18th, 1952).

strative burden and results in anomalies and inequities, the imposition of an excess profits levy is most undesirable.

The Finance Act, 1953, has provided for the early determination of the excess profits levy ('this . . . absurd, lunatic nightmare of a tax'—Mr I. M. Horobin, M.P.).¹

My own view is that so long as the present climate of taxation endures—and so long as our economy can endure such inclemency—there is little prospect of avoiding the present two-tier system of taxation. Nevertheless, much could be done to eliminate the present uncertainties and complexities and a considerable part of the labour of tax computation.

The Tucker Committee appeared to be convinced of the desirability of an actual year basis of assessment but not of its practicability, on the one hand because of the added difficulty of budgeting, but primarily because they could find no satisfactory way of ensuring continuity in the flow of revenue.

In an earlier paper² I endeavoured to demonstrate that, as for budget purposes it is necessary to make a close estimate of the national income and that profits remained a markedly constant proportion thereof, budgeting difficulties appeared to have been over-emphasized.

I believe that the major objection of the Tucker Committee could be substantially met and marked simplification of the taxation of companies achieved as follows:

- (i) Income-tax on an actual year basis.
- (ii) Profits-tax replaced by a dividend tax on equity shares only (less relief for equity dividends received).
- (iii) Income-tax deductions from interest, dividends, royalties, etc., paid over monthly or quarterly on account of the ultimate liability for the year.
- (iv) Dividend tax paid monthly or quarterly.

Summaries of company profits and their disposal are published annually in the National Income and Expenditure Statements. Preliminary figures are now provided in April and more detailed information later. The latest available detailed information is that for the year 1951 to which I have added below my own guess for 1952, based on the scanty preliminary figures for that year:³

	1951	1952
	£m.	£m.
Company dividends and interest paid, less inter-company dividends (gross)		
Debenture interest	47	50
Preference dividends	102	100
Ordinary dividends	447	500
	<u>596</u>	<u>650</u>

¹ *Hansard*, May 20th, 1952, col. 318.

² See *The Accountant*, March 1st, 1952.

³ See 'Blue Book, 1952'—*National Income and Expenditure, 1946-51* (H.M.S.O.), Tables 18, 20 and 29 and Cmd. 8803—*Preliminary Estimates of National Income and Expenditure 1948 to 1952* (H.M.S.O.), Table 3.

	1951	1952
	£m.	£m.
Company taxation (net after recovery of tax on interest and dividends)		
Paid	695	900
Reserved	456	150
	<u>1,151</u>	<u>1,050</u>
Analysis of company taxation		
Profits tax and excess profits tax paid	297	350
Income-tax paid (net)	398	550
	<u>695</u>	<u>900</u>
Income-tax deducted from interest and dividends [My estimate—J. C.]	268	300
	<u>963</u>	<u>1,200</u>

From the foregoing information and that given in the recent Budget statement⁴ it would seem that the rate of company taxation, after full implementation of the Budget changes, would be of the following order:

	£m.	£m.
Net taxation for 1952, as above ..		1,050
Less Reduction in standard rate ..	50	
Restoration of initial allowances	75	
Termination of excess profits levy	125	
		<u>250</u>
		800
Add Deductions from interest and dividends		300
		<u>1,100</u>
Revised gross taxation		1,100
Of which Profits tax	200	
Income-tax	900	
		<u>1,100</u>

If, therefore, the suggested changes were introduced at the beginning of the next fiscal year, the immediate yield of the dividend tax (if equivalent to the present profits tax), plus income-tax deductions, would be of the order of £500 million, or approximately one-half of the total of company taxation. As regards the balance, there would still remain for collection substantial arrears of excess profits levy (of the order of £150 million), profits tax (possibly £100-£200 million) and income-tax. The resultant deficit for the first year should not, therefore, be serious and could only tend to become inflationary—if inflationary pressure be then still regarded as disadvantageous—in the event, which is unlikely, that the companies spend the unpaid balance of taxes.

(c) *Nationalized Industries*

In an earlier paper⁵ I have drawn attention to the absurdity of wasting time calculating tax on nationalized industries—an expensive method of taking

⁴ *Financial Statements 1953-54* (H.M.S.O.).

⁵ See *The Accountant*, November 25th, 1950.

money out of one national pocket to put it in another. The Blue Book, above referred to, now reveals, however, that this is not only a wasteful operation but an ineffective one, because the ultimate small tax payments are more than compensated for by subsidies – as follows:

	1946	1947	1948	1949	1950	1951
<i>Extracted from Table 20</i>						
Tax payments by public corporations (£m.) ..	2	2	2	-1	—	28
Subsidies to public corporations (£m.) ..	7	16	13	10	10	6

Agreement of Costs with Third Parties

The agreement of costs with Government auditors and other third parties is a matter of constant concern in certain industries and occasional concern in most. It is an important job which falls to the lot of almost every industrial accountant some time in his career. It behoves him, therefore, to be certain of the principles involved.

First and foremost he must understand that 'cost' is merely a convention:

'A cost can only be a convention; and the expression "an accurate cost" can have meaning only within the particular convention chosen as appropriate to the purpose for which the cost is required. Failure to appreciate this is a common cause of misunderstanding.'¹

When a cost ascertainment is called for by contract conditions the appropriate convention should be derived from the terms of the contract; and unless clearly defined therein, is extremely disputable. The 'cost' of the contract as set forth in the contractor's books may not be decisive. Some time ago I was involved in a serious dispute with Government auditors concerning the meaning of the word 'cost' in relation to a series of Government contracts. After much thought I formulated the following expression which was never challenged – the 'cost' of a prime cost contract means no more than that which, added to the remuneration, will constitute the bill.

Representation at Trade Associations

Most trade associations have finance, taxation and other committees where a chartered accountant, as representative of a member firm, is always welcome.

Such committees provide excellent opportunities for the application of a chartered accountant's knowledge and ingenuity, sometimes with quite unexpected consequences. You may remember how deeply I became involved in P.A.Y.E. at its inception. I was then a member of the Taxation Subcommittee of the British Employers' Confederation. We were appalled at the complexity of the proposed

P.A.Y.E. scheme set forth in the White Paper.² Two distinguished actuaries, Messrs A. T. Haynes, F.I.A., and R. J. Kirtton, M.A., F.I.A., had produced alternative proposals to which we were attracted. The Inland Revenue representatives, however, disclosed defects in those alternative proposals and it was only my self-imposed task of finding a cure for those defects that led to the formulation of my own proposals, which were finally adopted by the Inland Revenue as a permissible alternative to the scheme proposed in the White Paper. The 'Modified Scheme', as my proposals were termed, you may remember, provides for the deduction of tax weekly on a non-cumulative basis with a periodic reconciliation with the cumulative tables, usually resulting in a refund. The pay-card required two columns only instead of the usual four columns. Later on, the Inland Revenue scheme was varied by the introduction of figures of tax-free earnings to be deducted from total pay. This led to the increase in the columns on the pay-card from four to six. I then devised a new form of tax table (a 'tax chart') so as to preserve the simplicity of my two-column tax-card. Copies of the card and tax-chart are appended for your information. [See pages 196 and 197 – Ed.]

Company Secretarial Work

Looking back about one generation, we find that the company secretary was usually an aged and trusted senior clerk whose name appeared on the directors' annual report and on the door of the company's vehicles. Nowadays, in a well-organized company or group of companies, the secretary is a man with a professional qualification (often a chartered accountant) who, in addition to a thousand-and-one duties, is an important link in the management chain.

In a large organization, the secretary is often secretary of a number of subsidiary companies, each requiring his attention. While some of the companies may have identical boards, others will have separate and independent boards with whom the secretary has to maintain contact. His duties include agreeing dates of and arranging board meetings and preparing agenda comprising all necessary business. He keeps the minutes of shareholders, directors, and committee meetings. He is responsible for settling, sealing and recording contracts and agreements; filing statutory returns and documents; keeping share registers (unless professional registrars are employed); issuing share certificates, dividend warrants, etc. He generally deals with insurances, in all their aspects.

He deals with legal (other than taxation) matters, in consultation with the company's legal advisers and must accordingly be an expert correspondent. He is responsible for steering the company's ship past the shoals of statutes and, above all, statutory regulations. A well-thumbed edition of *Butterworth* is his constant companion.

¹ *Developments in cost accounting*, page 13.

² Cmd. 6469 – *A new system for the taxation of weekly wage-earners* (H.M.S.O.).

Control Journal

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[illegible]

1. Apart from the cumulative controls, the headings should be self-explanatory, with two exceptions as follows:

- (a) Private (subsidiary) – transactions representing capital income and expenditure of the current year are entered in this column, so that the running total represents the net capital income or expenditure of the current year.
- (b) Suspense – in this column are entered temporarily transactions giving rise to queries on allocation to contract accounts.
2. The cumulative controls are for the purpose of recording, as part of the book entries, cumulative income and expenditure with year-end accruals on unsettled contracts.
3. At year-end, the sales and bought ledger cash and bank balances are transferred to the private ledger. The opening entry in the new year represents, therefore, a transfer of such balances from the private ledger to the control journal.
4. The foregoing balances are those actually in being at the year-end date and may be adjusted in the course of preparing the annual accounts by means of journal vouchers effecting transfers within the private ledger and reciprocal journal

vouchers in the new year, giving effect to the adjustments in the relevant ledgers for the new year.

5. At year-end, after adjustments for stocks and accruals, the prime cost and income control totals are transferred to the profit and loss account in the nominal ledger.
6. The net balance on the nominal ledger and the total column will then represent the net profit for the year, which is then transferred to an appropriation account in the private ledger, which latter ledger then becomes self-balancing.
7. Entries in the cumulative controls are as follows:
 - (a) The opening balances represent expenditure, less accruals and accounts rendered, plus accruals on all unsettled contracts.
 - (b) The vouchers effecting year-end accruals and transfers of controls to the nominal ledger are also posted to the cumulative controls.
 - (c) At year-end, completed contracts are removed as are also the totals of cost accounts representing overhead expenses.
 - (d) The closing balances then represent the total expenditure and accounts rendered, each adjusted for stocks and accruals on all unsettled contracts.

Appendix B

Modified Tax Chart 1953-54

(Revised May 1953)

(A) CODE No.	(B) PAY Not less than		(C) Index No.	(D) TAX		(A) CODE No.	(B) PAY Not less than		(C) Index No.	(D) TAX	
	£	s		£	s		£	s		£	s
1-			0								
10		2	1			61-2	5	2	51	15	15
11		4	2			63	5	4	52	15	15
12		6	3			64	5	6	53	16	16
		8	4			69-70	5	8	54	16	16
13		10	5			71	5	10	55	17	17
14		12	6			72	5	12	56	17	17
		14	7			73-4	5	14	57	17	17
15		16	8			75	5	16	58	18	18
16		18	9			76	5	18	59	18	18
	1	-	10			77-8	6	-	60	19	19
17	1	2	11			79	6	2	61	19	19
18	1	4	12			80	6	4	62	19	19
	1	6	13			81-2	6	6	63	1	0
19	1	8	14			83	6	8	64	1	0
20	1	10	15			84	6	10	65	1	1
21	1	12	16			85-6	6	12	66	1	2
22	1	14	17			87	6	14	67	1	2
	1	16	18			88-9	6	16	68	1	3
23	2	-	19			90	6	18	69	1	3
			20			91	7	-	70	1	4
24	2	2	21			92-3	7	2	71	1	4
	2	4	22			94	7	4	72	1	5
25	2	6	23			95	7	6	73	1	5
26	2	8	24			96-7	7	8	74	1	6
27	2	10	25			98	7	10	75	1	6
28-9	2	12	26			99	7	12	76	1	7
30	2	14	27			100-1	7	14	77	1	7
31	2	16	28			102	7	16	78	1	8
32-3	2	18	29			103	7	18	79	1	9
34	3	-	30			104-5	8	-	80	1	9
35	3	2	31			106	8	2	81	1	10
36-7	3	4	32			107	8	4	82	1	10
38	3	6	33			108-9	8	6	83	1	11
39	3	8	34			110	8	8	84	1	11
40-1	3	10	35			111	8	10	85	1	12
42	3	12	36			112	8	12	86	1	12
43	3	14	37			113	8	14	87	1	13
44-5	3	16	38			114	8	16	88	1	13
46	3	18	39				8	18	89	1	14
47	4	-	40				9	-	90	1	15
48	4	2	41			115	9	2	91	1	15
49	4	4	42			116	9	4	92	1	16
50-1	4	6	43				9	6	93	1	16
52	4	8	44			117	9	8	94	1	17
53-4	4	10	45			118	9	10	95	1	17
55	4	12	46			119	9	12	96	1	18
56	4	14	47			120	9	14	97	1	18
57-8	4	16	48				9	16	98	1	19
59	4	18	49				9	18	99	1	19
60	5	-	50			121	10	-	100	2	0

From time to time he may be called upon, subject to the directives of his board and the guidance of the company's legal and other professional advisers, to undertake the considerable work attendant upon new issues of securities. In addition to the scrupulous preparation of a prospectus and other documents and the setting up of an efficient organization to deal with applications and allotments, he must keep effective liaison with the Treasury, the Bank of England, the company's bankers and brokers and the Press.

Finally, it is usual for the chief executive of the company to rely largely on the secretary for help in that 90 per cent of management which is concerned, not with making decisions, but in ensuring that they

are carried out. At all directors' and committee meetings the efficient secretary will have his 'bible' consisting of a carefully cross-indexed file of previous decisions of consequence.

Above all, a company secretary must, at all times, display those attributes of integrity, objectivity and industry with which a chartered accountant is indoctrinated.

Management

Apart from the limited management functions performed by the chief accountant and secretary, the role of comptroller often brings the chartered accountant into the field of management. As to the functions of a comptroller, I cannot do better than quote from Mr F. R. M. de Paula:

'If the finance division, headed by the comptroller, is to play an effective part in the operation of the group, then this division must be placed upon an equality with the other main divisions, such as production, technical and research, sales, personnel, etc. The comptroller's status must be level with that of the heads of the other divisions, and he must report direct to the managing director of the holding company. The comptroller should be in a position to represent finance at the board and all other meetings where policy decisions are made, as he should be in a position to voice the financial implications of any proposal before the decision is made.'¹

Where there is not a full-time employed chartered accountant on the board, chartered accountants in public practice are being increasingly invited to join company boards as finance directors. Here again the qualities to which Mr Shepherd has drawn attention often lead to their election as chairmen.

May I be permitted one or two comments on the art of management. Like accounting, it is a matter of a few simple principles among which I would include:

- (1) Speedy decision.
- (2) Constant check-up on their implementation.
- (3) Delegation, with a personal chain of responsibility.
- (4) Committees to *advise*, but *decisions*, other than board decisions, to be *personal*.
- (5) Opportunity for promotion to the top of the company and no nepotism.

In looking at various organizations and their management I have found that - like judging an hotel by its coffee - one can usually judge a management by asking a few of the staff five simple questions:

- (1) If you are faced with a decision - have you the authority to make it?
- (2) If not - do you know who has?
- (3) Who is your immediate superior?
- (4) Which members of the staff, if any, are responsible directly to you?
- (5) If you are run over by a bus, is there a man who can take over your job?

¹ The Sixth International Congress on Accounting, at page 242.

Appendix C

Modified Tax Card

CODE <i>70 10</i>		Tax Ref.		Name				
INDEX <i>35 43</i>								
(1) Wk.	(2) Pay Day or before	(3) Gross Pay	(4) Tax*	(5) Incls.	(6) Other Deductions	(7) Net Pay	(8) Emp. In	(9) Remarks
1	Apr. 12	7 10	11					*Enter any Tax Refunds in Col. (4) in Red.
2	19	7 10	11					
3	26	7 10	11					
4	May 3	7 10	9					<i>14.4</i>
TOTAL		30	3	3				<i>15.1</i>
5	May 10	7 10	14	6				
6	17	7 10	14	6				
7	24	7 10	10	6				
TOTAL		21	3	13	6			
8	May 31	7 10	14	6				
9	June 7	8 10	15					
10	14	7 10	10					<i>12.12</i>
TOTAL		26	5	9				<i>10.10</i>
11	June 21	8 5	13					
12	28	8 5	10					<i>Code Change</i>
13	July 5	7 10	17					<i>16.11</i>
TOTAL		100	5	5				<i>21.9</i>
14	July 12							
15	19							
16	26							

NOTES

Week 1

Pay Index 75 less Code Index 35 equals 40.
Tax 115.

Weeks 2 and 3

Pay unchanged and tax as previous week.

Week 4

Tax read from cumulative tables, showing in margin of tax-card, free pay and taxable pay.

Weeks 5 to 8

So long as weekly wage remains fixed, it will suffice to deduct each week one-quarter of cumulative tax at week 4 to upper 6d and adjust every 13 weeks.

Week 9

Fluctuating pay - deal with as for week 1.

Week 10

Read tax from cumulative tables as for week 4.

Week 12

Code change - amend code and index at top of card.

Week 13

Read tax from cumulative tables resulting in refund due to change of code at week 12.

Moreover, it is not sufficiently understood that bad accounting is often the result of bad management. A rational accounting system is an integral part of rational management.

The aim of many chartered accountants in industry is, I imagine, to be appointed to a seat on the board of the company which employs them and an increasing number are attaining that goal. In many cases they retain their functions as accountant, secretary or comptroller but in other cases they pass on from their professional spheres into more directly managerial work.

Let me, however, echo a word of warning from Mr Chelioti:

"These are not days in which the company director is suffused and irradiated by any general glow of popular approval. On the contrary, he spends a precarious life darting furtively from board-room to board-room and occasionally into the quiet refuge of his own office, hoping, not always with justification, that he will not be sniped at as he slinks through the shadows."¹

The Fraternity of Chartered Accountants

I have already spoken of the importance to the chartered accountant entering industry of finding a satisfactory basis of relations with his superiors, colleagues and staff. It is equally important to find a basis of friendly, but constructively critical, relations with the accountants in public practice with whom he will be in frequent contact, primarily the tax

consultants (if any) and auditors of his company.

As regards taxation, my experience is that for a large group of companies there is a good deal to be said in favour of an arrangement whereby a member of the chief accountant's staff concentrates on the detail of tax, the comptroller keeps an overall view of matters of principle in relation to taxation, while a tax consultant in public practice imports that fuller knowledge which is denied to the employees of a single business.

I have always found that absolute frankness is the only basis of relations with auditors. For example, if there is a point which is likely to give rise to difficulty in connection with the annual accounts, I try to discuss it in advance with the auditors, but on the basis that any opinion they give is provisional only and subject to review in the context of the full accounts when available. This friendly relationship with the auditors has recently survived the test of an accountant's report for prospectus purposes, despite all the differences of opinion that such a document can stimulate.

The chartered accountant in industry struggles under many burdens, not the lightest of which is to suffer the smiles of his board colleagues when the auditors' report is read out. The present form of certificate is likely to defeat its own ends because any qualification, unless in heavier type, would be lost in the general verbosity. It is not always - if ever - appreciated by directors that the form of certificate is, in the main, dictated by the Ninth Schedule of the Companies Act: moreover, that the Institute has proposed to the Board of Trade an amendment to

¹ Mr G. Chelioti, *Management and the accountant*, at page 31.

the Ninth Schedule to authorize a simpler form of certificate.¹

There is a growing realization of the interdependence of chartered accountants in industry and in public practice. This has found expression in the revised Charter; in the composition of the Council of the Institute, of the Taxation and Research Committee and the committees of the district societies. The work of the Institute has undoubtedly improved as a result of pooling the knowledge and experience of all categories of members. What previously was primarily an examining and disciplinary body now lays down canons of practice for the guidance of its members. Moreover, one of the tangible rewards for service on the various committees is the mutual education thereby derived.

There is one aspect of the interdependence of the chartered accountants in industry and public practice which deserves, I think, special attention. Many newly qualified chartered accountants accept responsible commercial appointments shortly after qualification, before, in my view, they are sufficiently matured by experience. Moreover, if it is to play its full part in offering help and guidance on management accounting, public practice must not only retain a higher proportion of qualified men, but also attract back some of those chartered accountants who have had responsible industrial experience. The root

trouble lies, I know, in the level of fees but this, in my view, is not insoluble. There never was greater demand for the work of chartered accountants – 'the labourer is worthy of his hire'.²

CONTENTS	Page
INTRODUCTION	187
BASIC PRINCIPLES	188
APPLICATION OF BASIC PRINCIPLES	188
WHAT TYPE OF RECORD	188
THE INTEGRATION OF FINANCIAL AND COST RECORDS	189
INDUSTRIAL FUNCTIONS OF THE CHARTERED ACCOUNTANT	189
WHAT HAS HAPPENED	189
THE 'HOW' AND THE 'WHY' OF IT	190
FORECASTING	191
THE ADMINISTRATION OF THINGS	192
TAXATION	192
AGREEMENT OF 'COSTS' WITH THIRD PARTIES	194
REPRESENTATION AT TRADE ASSOCIATIONS	194
COMPANY SECRETARIAL WORK	194
MANAGEMENT	196
THE FRATERNITY OF CHARTERED ACCOUNTANTS	197
APPENDIX A – CONTROL JOURNAL	195
APPENDIX B – MODIFIED TAX CHART	196
APPENDIX C – MODIFIED TAX CARD	197

¹ Annual report of the Council for 1951, page 57.

² St Luke, x, 7.

WEEKLY NOTES

New Member of the Council of the Institute

In the report, elsewhere in this issue, of the Institute's Council meeting held on August 5th, it is recorded that Mr Mark Wheatley Jones, B.COM., F.C.A., has been elected to the Council of the Institute.

Mr Wheatley Jones, who was admitted an Associate of the Institute in 1919 and elected a Fellow in 1926, is a partner in the firm of Haworth & Wheatley Jones, Chartered Accountants, of Manchester, and is Vice-President of the Manchester Society of Chartered Accountants.

National Insurance (Industrial Injuries) Act

The National Insurance (Industrial Injuries) Act, 1953, comes into operation on the 26th of this month. The Act does not affect any underlying principles of the previous Act, nor does it increase contributions, but, it does make certain alterations which are beneficial to those likely to come within its scope.

The main alteration is a relaxation of the conditions for disablement benefit. At present, this can be paid only if a medical board assesses the disablement at 20 per cent or more, or if it is likely to be permanent. From August 26th, benefit may be payable wherever disablement is assessed at 1 per cent or more, whether it is permanent or not.

Other changes include making hospital treatment

allowance available to those with disablement gratuities as well as to pensioners, enabling industrial benefit to be paid at a higher rate and effecting certain changes in adjudication. The new Act also gives the Minister power to make regulations for certain purposes but not of a kind to invoke any new significant principle.

Private Trading in Copper

During the transitional period after private trading in copper is reintroduced, the Government will continue to supply copper to the United Kingdom market. The Ministry of Materials will still be importing copper over that period which was bought up to August 4th of this year. Until copper bought by private trading can flow through the pipeline after that date the Government will release from stock about 60,000 tons of metal which will be available through the normal trade channels. These releases do not represent an increase in the supplies of copper which would in any case be available to the purchaser.

This release from stock represents the limit so far as the Government is concerned unless there is a critical change in trading conditions. It does not follow, however, that the balance of the stock held by the Government will go automatically into

the strategic reserve. The Government reserves the right to make other arrangements if it considers that conditions warrant it.

Nevertheless, the declared policy does give the market some idea of the quantity of copper which will be available in the early, and perhaps faintly nervous days of free copper. This should be valuable as a means of establishing efficient trading and as a step towards London re-establishing itself as the centre of the world copper market.

It is early to judge how the free market in copper will settle down but going by the first week's operations the underlying conditions are healthy. At the start of trading last week the price sagged but quickly recovered to a level which had been expected before the control came off. The optimists had hoped for a price rather better than £200 a ton. The lowest point reached a week last Thursday was £195 a ton for three months' delivery, but this recovered on the following day to £203. On the same day spot delivery recovered to £222 a ton.

Better Car Exports

Car production and export figures for the second quarter of this year have shown striking resilience. Output was the highest quarterly total ever recorded and 23,000 higher than in the first quarter of this year.

So far as exports are concerned, there has been an upward movement since the beginning of this year and much of the improved result is due to the increasing imports into the United States. There has been some sign of better trading with the large Commonwealth markets but in the case of Australia, where an upward trend is at last discernible after

the severe import restrictions imposed last year, sales were valued only at £5.4 million in the first half of this year compared with £13.9 million in the same period of 1952.

It is noticeable that commercial vehicle sales are not behaving in the same encouraging way as those for cars. Production of commercial vehicles was lower in the second quarter than in the first and exports showed fewer commercial vehicles shipped abroad than in the first three months of the year. Encouraging as the car figures are at present, the prospects for the large companies depend to a notable extent on sales of commercial vehicles and tractors. In the case of these last two there are signs of more difficult days ahead.

Lagging Coal Stocks

A combination of higher industrial consumption, bigger exports and disappointing production due to holidays and high absenteeism is having a serious effect on the coal stock position. This is normally the time of year when stocks for the coming winter are accumulating most rapidly and this year the rate of accumulation is hardly satisfactory.

By Bank Holiday, stocks were just about on 16 million tons. At the same time last year they were about 17.7 million tons. Output per man-shift overall is slightly higher in the mines compared with the July returns for 1952 but it is lower on the year when the figures for output at the coal-face are shown separately.

At the present rate of accumulation, coal stocks are about half a week's output below the level of a year ago and leeway of that amount is a great deal to make up over something like four months.

TAXATION CASES

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

Dale v. C.I.R.

In the House of Lords - July 20th, 1953
(Before Lord NORMAND, Lord REID and Lord COHEN)

Special contribution - Remuneration - Legacy of annual payment to trustee of charity - Performance of duties by trustee - Whether annual payment earned income - Whether investment income - Income Tax Act, 1918, Section 14 (3), Schedule D, Case III, Charging Rule 1 (a), General Rules 19, 21 - Finance Act, 1920, Section 33 - Finance Act, 1922, Section 18 - Finance Act, 1948, Sections 47, 49, 68 (2).

The appellant was a trustee of the Wellcome Foundation, and under the will which established the charity the appellant was entitled to £1,000 a year free of tax so long as he continued to act as trustee, and was not in receipt of remuneration from the Foundation. The appellant performed onerous duties as trustee.

The appellant was assessed to special contribution

on the footing that the £1,000 a year was investment income. The Special Commissioners decided that the £1,000 a year was not derived from a source of earned income; and that, therefore, it was investment income within Section 49 of the Finance Act, 1948.

Held (reversing the judgment of the Court of Appeal), that the sum in question was earned income, and was, therefore, exempt from the special contribution.

Goff v. Osborne & Co (Sheffield) Ltd

In the High Court of Justice (Chancery Division)

July 9th, 1953

(Before Mr Justice VAISEY)

Income-tax - Trade - Carry forward of loss - Whether same trade being carried on - Finance Act, 1926, Section 33.

The company carried on business in electroplating down to July 1939, when the business premises were acquired under a slum clearance

order, and the company then collected the book debts, had a balance sheet prepared, and informed the Inspector of Taxes that it was about to be wound up. No winding-up took place, however, but the registered office was moved to the offices of the accountants. In 1940 the books of account were destroyed in an air-raid. In 1941 the company made an effort to resume business but was unable to obtain the necessary licence. The shares in the company were sold, and in August 1944 the company acquired another business, and the company's registered office was transferred to the place where that business was carried on. This business became, however, only a small part of the whole business of the company, the greater part of which was electro-plating.

The company claimed to be entitled to set off losses made down to July 1939 against the profits of subsequent periods. The General Commissioners found that there was no permanent discontinuance, and that the trade carried on from 1944 onwards was neither a succession nor a new business.

Held, that the General Commissioners' decision could not be supported; that there was no continuity between the business now carried on and the business formally carried on by the company; and that, therefore, relief under Section 33 of the Finance Act, 1926, was not available.

Fenwick v. C.I.R.

In the House of Lords—July 20th, 1953
(Before Lord NORMAND, Lord REID, and Lord COHEN)

Special contribution—Income attributable to a period of years—Relief when received in 1947–48—Two dividends received in that year—Method of giving relief—Finance Act, 1927, Sections 34, 36—Finance Act, 1948, Section 61.

In 1947–48 the appellant received two dividends from a company, namely, a dividend of £1,554 on May 31st, 1947, and a dividend of £388 10s 0d on September 1st, 1947. The first dividend was declared as a final dividend of 12 per cent for the calendar year 1946, and the second dividend was declared as an interim dividend of 3 per cent for the calendar year 1947. The appellant applied for relief under Section 61 of the Finance Act, 1948. The Special Commissioners refused the application on the ground that it was necessary to compare the two dividends in question with the dividends forming the income of some other year, which was to be taken by the Special Commissioners as representative of the 'income which would be attributable to a period of one full year' mentioned in the section. This view was rejected in *Fenwick v. C.I.R.* ([1950] 29 A.T.C. 357), and the stated case was remitted to the Special Commissioners.

The Special Commissioners, in their further consideration of the case, selected the two calendar years 1946 and 1947 for the purpose of arriving at a 'full year's income' within the last part of Section

61 (1); and they found that the dividends paid in the calendar year 1946 were equal to the dividends paid in 1947–48. The dividends paid in the calendar year 1947 amounted to less than those paid in 1947–48; but as the total of the two dividends paid in that fiscal year was no greater than the total of the dividends paid in the calendar year 1946, they again refused the application for relief.

Held (affirming the judgment of the Court of Appeal), that the Special Commissioners' decision was correct.

Griffiths v. Mockler

In the High Court of Justice (Chancery Division)
July 21st, 1953
(Before Mr Justice VAISEY)

Income-tax—Office or employment—Officer in Regular Army—Mess subscriptions—Whether deductible—Income Tax Act, 1918, Schedule E, Rule 9.

The respondent was a major in the Royal Army Pay Corps, and under the King's Regulations he was bound to be a member of his regimental mess. His mess subscriptions were an annual subscription to defray the ordinary expenses of the mess and a monthly subscription to meet incidental expenses.

The respondent claimed to be entitled to deduct the amounts of these subscriptions in computing the amount of his army pay for tax purposes. The Inland Revenue contended that the expenditure was incurred partly for the respondent's personal purposes as distinct from the performance of his duties. The General Commissioners allowed the deductions.

Held, that the sums in question were not deductible as they had not been incurred wholly, exclusively and necessarily in the performance of the respondent's duties.

Lomax v. Newton

In the High Court of Justice (Chancery Division)
July 21st, 1953
(Before Mr Justice VAISEY)

Income-tax—Office or employment—Deductions—Officer in Territorial Army—Mess subscription—Expenditure on mess guests—Batman's wages—Hire of camp furniture—Hotel accommodation—Tickets for other ranks' functions—Income Tax Act, 1918, Schedule E, Rule 9.

The respondent was a major in the Territorial Army, and he claimed to be entitled to deduct the following amounts in computing his pay for tax purposes:

Annual mess subscription—£8.

Share of mess guests' expenditure—£9 16s 0d.

Payments to batman.

Hire of camp furniture.

Hotel accommodation at conferences and exercises.

Tickets at other ranks' social functions.

The Inland Revenue contended that none of these items was deductible, on the ground that none was wholly, necessarily and exclusively expended in the performance of the respondent's duties.

Held, that only the fifth item was deductible.

FINANCE AND COMMERCE

Stock markets maintain a firm tone and business is on a surprisingly good scale considering the usual seasonal influences. The gilt-edged market appears to have absorbed the British Gas stock issue well enough and has resumed its slow advance. In equity sections, particular attention is directed to textile shares. Support is very selective.

Prominent Profit Figures

The accounts of the Renold and Coventry Chain Co Ltd for the year to March 29th, 1953, provide us with the occasion to emphasize a point we have had in mind for some time. This is the drafting of profit and loss accounts in a way that brings forward from the background of detail, the principal stages in profit from the first entry to the final unappropriated balance.

This high-lighting of the main figures is one of the advantages obtained from the present-day form of balance sheet by grouping in fixed assets, current assets, etc. In this balance sheet, the group totals are in heavy type as well as the group headings.

Similar prominence is given to the main figures in the profit and loss account by heavy type for the trading profit, the before taxation figure, the balance available, etc. It is a far better method than running the profit and loss account through in the same type, leaving the reader to extract the main information.

The company's annual report is altogether a most informative document. The directors' report is a fully detailed statement covering six quarto pages and containing all the information usually left to the chairman's statement. This, as we have previously noted, is surely the logical development of the widely adopted practice of publishing the chairman's review with the annual accounts. The accounts are presented in three parts—the company, the company and British and Dominion subsidiaries, and the French subsidiaries. Our reprint shows part II.

Durban and Edmonton

We have recently received the accounts of the City of Durban, South Africa, and of the City of Edmonton, Alberta, Canada. For the most part they follow the accounting lines of any municipality. Powers are exercised to collect money from citizens, and the authorities must necessarily show how they exercised those powers, what they collected, how they spent the money and how they administered the city's assets.

In the case of Durban, we have both the full abstract of the accounts, a formidable volume of figures, 13 by 8½ inches and 150 pages, and the

The epitome reduces the accounts to the basic figures and includes a broad analysis in the form of segmented circle similar to the 'cake-cutting' circle given by many public companies as noted in the column. This summary shows the percentages of total income spent on administration, education, health, water works, protection and miscellaneous, the total spending in each case, and the contribution to that spending paid in respect of properties over a range of values.

An interesting history of the city is provided from which we learn that Durban was named in 1835 after D'Urban, the then Governor of the Cape of Good Hope.

The Edmonton accounts are an equally business-like publication of the basic figures covering tax collection, debenture debt service, electric lighting and power, the municipal airport, power and water supply, the telephone system, and other public utilities.

One section, we seem to discern, emphasizes the difference between public welfare and social service in this country and Canada. Here we have the welfare state; there the municipality supports private endeavour by grants to the Sisters of Charity, the Protestant Home, the Canadian Legion, the Children Aid Society, and many other good works including even 'Alcoholics Anonymous'.

Double Tax Relief

A point from the accounts of the British Empire Trust Co Ltd is worth a short note. Mr E. Ronald Crammond, the chairman, draws attention to the fact that the amount received under double taxation relief during the year has been shown as an addition to income from investments.

This procedure, he states, has been adopted to include income from investments abroad on the same basis as income from the United Kingdom which is shown before deduction of United Kingdom taxation.

The Trust is in the business of industrial financing and acts as trustees, registrars, secretaries, and transfer agents. Many companies pass out the work of keeping share registers and handling share transfers to professional registrars.

It is also the sort of work, of course, in which many firms of accountants specialize as well as conducting audit practice.

Money Market

Treasury bill applications totalled £369,645,000 on August 7th, some £26 million below the previous week. Cutting the bid to 600 8s and the market

**THE RENOLD AND COVENTRY CHAIN COMPANY LIMITED
AND BRITISH AND DOMINION SUBSIDIARIES**

Consolidated Profit and Loss Account for the Financial Year ended March 29th, 1953

£	1951-52	£		£	£	£
715,615			Profit on Trading for the Year after taking account of the loss of a Subsidiary and of the items mentioned below			836,008
			£ Directors' and Past Directors' Emoluments as per Holding Company's Profit and Loss Account	61,501		
			142,149 Depreciation of Properties and Equipment (excluding Land)	159,216		
			23,687 Foreign Taxes not recoverable by relief against United Kingdom Taxation	—		
			— Hourly Employees Pension Arrangement (see Report of Directors, para. 21 ¹)	44,632		
			INCOME FROM INVESTMENTS (Including £41,458 — £24,634 recoverable by relief against United Kingdom Taxation in respect of Foreign Tax suffered)			
	38,994		Subsidiaries not consolidated (for previous year)		59,648	
	19,047		Associated Company		31,172	
	6,116		Other Investments		6,219	
64,157						97,039
779,772			Profit for the Year subject to Taxation			933,047
			Deduct:			
			Taxation based thereon:			
	14,000		Excess Profits Levy		80,000	
	150,500		Profits Tax		79,500	
	279,600		Income Tax		450,019	
			(which includes the Reserve of £393,598 for Income Tax 1953-54 — £249,100 for 1952-53)			
	54,000		Transfer to Future Taxation — Reserve for Equalization of Taxation		3,198	
498,100						612,717
281,672						320,330
186,000			Transfer to Re-equipment Reserve			183,000
95,672			Net Balance of Available Profit for the Year			137,330
	86,365		Excess of Consumable Tools on valuation over book value at April 2nd, 1951			—
	15,836		Adjustments of Taxation for previous years			—
70,529						
166,201						137,330
187,249			Unappropriated Profits of previous years per last account			212,788
353,450			Available for Disposal			350,118
			APPROPRIATIONS per Holding Company's Profit and Loss Account			
	140,662		To Dividends			153,117
£212,788			Total Unappropriated Profits as shown on Balance Sheet, [page 203]			£197,001

SCHEDULE III
PROPERTIES AND EQUIPMENT

March 30th, 1952			PROPERTIES AND EQUIPMENT			March 29th, 1953		
	Cumulative Depreciation	Original Cost				Cumulative Depreciation		
£	£	£				£	£	£
478,226	161,711	639,937	Land and Buildings	..	..	736,617	177,347	559,270
1,252,236	531,488	1,783,724	Plant and Machinery	..	..	1,993,212	599,531	1,393,681
120,441	38,339	158,780	Durable Tools	..	..	182,956	54,006	128,950
483,329	212,526	695,855	Furniture and Equipment	..	..	862,569	243,904	618,665
<u>£2,334,232</u>	<u>£944,064</u>	<u>£3,278,296</u>	Total per Balance Sheet, [page 203]	..	..	<u>£3,775,354</u>	<u>£1,074,788</u>	<u>£2,700,566</u>

SCHEDULE IV
MOVEMENTS ON CAPITAL RESERVES

1951-52 British and Dominion Subsidiaries			The R. & C. C. Co Ltd			1952-53 British and Dominion Subsidiaries			The R. & C. C. Co Ltd		
Total £	£	£	Total £	£	£	Total £	£	£	Total £	£	£
33,742	—	33,742				85,742	—	85,742			
797,121	1,121	796,000				959,000	1,121	960,121			
186,000	—	186,000				183,000	—	183,000			
983,121	1,121	982,000				1,142,000	1,121	1,143,121			
23,000	—	23,000				52,000	—	52,000			
£960,121	£1,121	£959,000				£1,090,000	£1,121	£1,091,121			

Notes

1. Commitments for Capital Expenditure amount to approximately £736,000 - £537,000.
2. In 1947-48 the Company undertook to pay the Trustees of the Staff Pension Scheme ten equal annual instalments of £9,850 to provide Past Service Pensions. Profit on Trading for the year is after charging the sixth instalment.
3. The businesses and assets of the British and French Subsidiaries are mainly in European countries, where there are restrictions upon remittances to Great Britain.
4. Assets, Liabilities and Profits in this Balance Sheet which are carried in Overseas Currency have been converted into Sterling as follows:
Fixed Assets, and Depreciation thereon, and Stock-in-Trade at the rates ruling on the date of acquisition.
Other Assets, Liabilities and Profit and Loss items at the rate ruling on the date of the Balance Sheet.
5. As in previous years the company has not after deducting Non-Distribution Relief. In the event of subsequent distributions as defined in the Finance Acts being made otherwise than out of subsequent taxable profits, such Profits Tax may be repaid up to a total not exceeding £325,000.

**THE NEW ZEALAND CHAIN COMPANY LIMITED
AND BRITISH AND DOMINION SUBSIDIARIES**
Consolidated Balance Sheet as at March 29th, 1953

[illegible]

[1] Not reproduced - Editor.7

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

A Proposed National Association of Practising Accountants

SIR. — I give below a copy of a letter which has been sent in identical terms to each of the bodies named therein for their early consideration.

In the meantime those practitioners who recognize the need for such a body as N.A.P.A. are invited to register their names and addresses with me (together with any suggestions they may care to submit). On the other hand if there are some practising accountants who do not desire such an association to come into being perhaps they will also kindly write me their reasons.

Yours faithfully

R. SPROULL (Senior) C.A.

28 Great Queen Street,
London WC2,

To the Council of each of:

The Institute of Chartered Accountants of Scotland;
The Institute of Chartered Accountants in England and Wales;

The Society of Incorporated Accountants and Auditors;
The Association of Certified and Corporate Accountants;

and to the Co-ordinating committees of these bodies.

Jointly and severally:

Gentlemen,

N. A. P. A.

(1) This letter is to inform you of the intentions of the promoters of a proposed co-ordinating body of practising accountants. Membership of your bodies is represented amongst the promoters. The proposed name of the new body is The National Association of Practising Accountants (N.A.P.A.).

(2) N.A.P.A. is not intended to compete with you, but rather is proposed to fill a much felt need for an association to serve the special interests of practising accountants, both as employers and in their relationships with clients and the public. It thus follows that N.A.P.A. will not enter your main field, the academic one of holding examinations and giving qualifications nor will it permit its members to use its name or designatory letters as indicative of accountancy qualifications.

(3) N.A.P.A.'s proposed objects are to two groups, viz. numbers 1, and 2.

(1) Registration.

(2) Representing the

and the

(4) Object number 1, Registration, is so overwhelmingly important that it alone can justify N.A.P.A. coming into being. We consider that previous attempts at registration have failed owing to the lack of a unified body which can speak directly for and exercise authority in the name of all practising accountants. This object will also lead — for the requirements of the Registration Bill — to a need to define practitioners' work more precisely but nevertheless sufficiently broadly, and in due accord with the actual scope of the activities of practising accountants. This will impose upon us the duty of an early ironing out of difficulties with related professions and others, so that our registration efforts and objectives will have a wide understanding and support both in the profession and by the public at large. In our view only a body such as N.A.P.A. which can speak for all practising accountants regardless of their individual qualifications, can achieve this all-important objective of registration.

(5) Although Objects Nos. 2 to 7 may cover some activities in which you have been concerned, we feel the limited and recent extent of your interests here indicate the difficulties with which you are faced in these fields and we feel N.A.P.A. can fill these needs more effectively and we hope to your own ultimate advantage. Thus we judge you have approached these problems from a predominantly academic standpoint, but our function will be to deal with them from an essentially practical aspect.

(6) We feel that as our activities and experience extend, we can co-operate usefully in the interest of the profession as a whole by relieving you of some of your activities which impinge on some of ours, so that you will be enabled to concentrate upon the most important needs of the educational side of accountancy.

(7) N.A.P.A. intends to maintain amongst its members high ethical standards and will be glad to co-operate with you in respect of mutual members.

(8) In general, it has not been your practice to provide a service centre of information and advice for practising members and, indeed, if each examining body of accountants were to attempt to set up such an organization the consequent multiplication would obviously entail overall expenditure far in excess of that involved for the unified service envisaged by N.A.P.A. Nor should it be overlooked that one of the important advantages in having one organization — such as N.A.P.A. — fostering the activities it contemplates is that practitioners of all bodies and of none (until registration is achieved), will have opportunities of meeting together and more readily getting common agreement on common problems.

(9) However they are considered, it can be seen that N.A.P.A.'s proposed essential functions will not trespass on yours. In due course it is hoped that we shall receive the support of your Council members (who are practitioners) and of your practising members generally and your co-operation to that end will be appreciated. We shall be glad to know, therefore, how sympathetic you are to our proposals. Thereupon if there appears to be a basis on which this sympathy with us could be deepened we would welcome

representation from your co-ordinating committee to join in N.A.P.A.'s promotion.

(10) As the matter of this letter is of public interest in the profession, a copy is also being sent shortly to your accountancy Press for publication.

Yours faithfully,

HUBERT E. BROWN, A.S.A.A.

HARRY LUCAS, A.A.C.C.A.

STANLEY McCOMBIE, F.C.A.

EDWARD S. SMITH, A.C.A.

R. SPROULL (Senior) C.A. and others.

For the promoters of N.A.P.A.

R. SPROULL.

[We have been requested by the Secretary of The Institute of Chartered Accountants in England and Wales to publish the Institute's reply to the letter sent to them by the promoters of N.A.P.A. It is reproduced below. Reference to this matter is made at page 207 of this issue in the report of the proceedings of the Institute's Council meeting held on August 6th and a leading article on the subject appears at page 183. - Editor.]

R. SPROULL, (Senior), Esq., C.A.,
28 Great Queen Street,
London, WC2.

Dear Sir,

N. A. P. A.

The letter dated July 27th, 1953, signed by you on behalf of yourself and others has now been considered by the Council of the Institute.

In answer to the one question which is asked, the Council is not in any way sympathetic to the proposals. The Council does not accept as valid nor as factually correct the reasons advanced by the signatories of the letter to justify the formation of the proposed association.

In view of the cordial relations which exist between the recognized bodies and the close co-operation of these bodies on matters affecting the profession as a whole, the Council would deprecate the formation of any further body purporting to represent the interests of practising accountants.

Yours faithfully,

(Signed) ALAN S. MACIVER,
Secretary.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.

Moorgate Place,
London, EC2.

Schedule E: Expenses

SIR, - A client is Midlands sales representative for a London firm and does a business mileage of 25,000 to 30,000 per annum. His remuneration is paid as to £500 per annum in salary and £2,500 on a commission basis plus expenses of £5 10s per week. Last year, my client was informed by his medical adviser that he should not drive himself and accordingly he employed his wife in the capacity of chauffeuse. My client pays his wife a salary of £9 per week and has applied the P.A.Y.E. regulations but H.M. Inspector of Taxes has refused to allow any part of this remuneration as a deduction for income-tax

purposes as it arises from the personal circumstances of my client and is not an expense *ex necessitate* of the employment. He refers me to the case of *Ricketts & Colquhoun* ([1925] 10 T.C. 539). He quotes from Lord Blandesburgh's remarks in defining those expenses falling within the provisions of Rule 9 viz.:

'the language of the rule points to expenses with which it is concerned as being confined to those which each and every occupant of the particular office is necessarily obliged to incur in the performance of the duties, to expenses imposed upon each holder *ex necessitate* of his office and to such expenses only.'

He also quotes the case of *Roskams & Bennett* ([1950] 32 T.C. 129) and seems to be relying on the personal nature of the reason for employment of a chauffeuse.

I have no doubt in my mind that the expense is one which should be allowed, but the weight of legal decisions appears to be loaded against my client and I shall be glad to have readers' views and experience on this point.

Yours faithfully,

ARTURO.

'Cheque Endorsement is Superfluous'

SIR, - With reference to the above article in your issue of June 27th, does your contributor suggest that receipts could be affixed to the reverse side of the suggested new instrument as is frequently done at present with cheques?

To take the matter a step further, would he approve of dispensing with receipts altogether?

Yours faithfully,

Swansea.

A. THOMAS.

[Our contributor writes: The suggestion that the new instrument should carry a receipt on the back was not intended, nor does it appear that the idea has been anywhere discussed. In principle it would be possible to allow such a receipt, but of course the collecting banker would not be expected to see that it was completed - just as the existing cheque-receipts might continue after endorsements were 'abolished', but without the banks' enforcement. But in fact to ask for a receipt on the back of an instrument which is designed to be non-transferable would be something of a *reductio ad absurdum* of the whole business. Mr Thomas's second interesting question (which goes somewhat beyond the scope of the article) really rests on the same point: of course a large number of present-day receipts for cheque payments are quite unnecessary. In case of dispute the drawer of the cheque could prove payment through his and the payee's banking account. But while the negotiability of the cheque remains its theoretical perfection there is always the odd chance that the payee will endorse it to A. N. Other, and that proof will thus become more difficult or even on occasion impossible. Only when the banks accept cheques for the credit of the payees only will it be possible to abolish receipts entirely. (But it is interesting to notice a growing slackness in collecting receipts; many businesses now do not bother to remind those of their clients who omit to send their receipts along.)]

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council, held on Wednesday, August 5th, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. Hamilton Baynes, Sir Bernhard Binder, Messrs W. G. Campbell, P. F. Carpenter, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Messrs R. B. Leech, M.B.E., S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, T. B. Robson, M.B.E., G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., E. D. Taylor, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs E. F. G. Whinney, R. P. Winter, M.C., with the Secretary and Assistant Secretaries.

Death of Mr H. Crewdson Howard, F.C.A., and Mr P. Morgan-Jones, F.C.A.

The Council received the report of the death of Mr H. Crewdson Howard, F.C.A., London, and Mr P. Morgan-Jones, F.C.A., Eastbourne, with very great regret.

Mr Crewdson Howard served on the Council from April 1924 until January 1953 and was Vice-President of the Institute in 1947. He had served on numerous Institute committees and was a past chairman of the General Purposes and Planning committees.

Mr Morgan-Jones was elected to the Council in 1937 and had served on the Applications, Library, Parliamentary and Law and District Societies Committees. He was a past chairman of the Applications and District Societies Committees.

Welcome to New Member of the Council

The President welcomed Mr R. B. Leech, of Coventry, who was attending for the first time as a member of the Council and Mr Leech briefly replied.

Examination Results - May 1953

The Examination Committee reported the results of the examinations in May 1953 as follows:

	Passed	Failed	Total
Preliminary	82	115	197
Intermediate	571	580	1,151
Final	429	483	912
	<u>1,082</u>	<u>1,178</u>	<u>2,260</u>

The following prizes and certificates of merit were awarded:

Intermediate

First Certificate of Merit, the Institute Prize, the Steadman Prize and, with one other, the Frederick Whinney Prize
P. Mendelssohn (J. F. T. Nangle), London.

Second Certificate of Merit and, with one other, the Frederick Whinney Prize

C. P. David (C. R. Daniel), Cardiff.

Third Certificate of Merit

I. R. McNeil (A. J. Heald), Brighton.

Fourth Certificate of Merit and the Plender Prize for the Taxation and Cost Accounting paper

M. H. Turner (G. G. G. Goult), Ipswich.

Fifth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Partnership) paper

R. B. Booth (M. S. Walker), Bradford.

Sixth Certificate of Merit

P. Wiseman (P. Fine), London.

Seventh Certificate of Merit

R. Kapoor (A. H. Farquhar), London.

Eighth Certificate of Merit

F. B. Wilson (F. Jeffery), Derby.

Ninth Certificate of Merit

K. P. Bhargava (W. Pickles), Manchester.

J. V. M. G. Clark (E. York), London.

Eleventh Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Limited Companies) paper

D. J. Bentley (H. J. Williams), London.

Eleventh Certificate of Merit

M. J. Beer (N. A. Wheatcroft), Sheffield.

P. M. D. Gibbs (F. O. M. Smith), London.

C. P. Huckstep (R. H. Dutchman), London.

Fifteenth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Executorship) paper

J. M. L. Jaeger (E. D. Taylor), Leeds.

Fifteenth Certificate of Merit

P. R. de Chasteigner du Mee (Sir H. G. Howitt), London.

Seventeenth Certificate of Merit

R. C. Wickenden (W. C. Smith), London.

Eighteenth Certificate of Merit and the West Prize

E. A. Eden (G. W. Tonks), Wolverhampton.

Nineteenth Certificate of Merit

G. J. Martin (A. L. Barnett), Bristol.

Twentieth Certificate of Merit

K. G. Bishop (F. C. Russell), London.

Plender Prize for the General Commercial Knowledge paper

S. L. Hirst (F. T. Barnes), London.

Plender Prize for the Auditing paper

N. N. Sassienie (F. W. Barnes), London.

Final

First Certificate of Merit, the Institute Prize, the Walter Knox Scholarship and the Plender Prize for the English Law (Part II) paper

D. L. Range (F. H. C. Christmas), London.

Second Certificate of Merit, the W. B. Peat Medal and Prize and the Plender Prize for the English Law (Part I) paper

P. Sergeant (E. A. Radford), Woking.

Second Certificate of Merit

A. V. J. More (C. H. Mead), London.

Fourth Certificate of Merit, the Plender Prizes for the Auditing and General Financial Knowledge and Cost Accounting papers

J. C. Steare (A. Smith), Manchester.

Fourth Certificate of Merit

G. Carter (B. Asquith), Leeds.

Frederick Whinney Prize and the Plender Prize for the Advanced Accounting (Part II) paper

M. H. Jenner (G. Place), East Grinstead.

Plender Prize for the Taxation paper

C. D. Holt (J. F. Venner), London.

Plender Prize for the Advanced Accounting (Part I)

paper
J. W. Lord (J. F. Hudson), London.

Auditing Prize

J. Clowes (J. A. Carter), Bolton.

Roger N. Carter Prize

A. B. Hargreaves (H. C. Davie), Blackburn.

West Prize

J. R. Riddell (R. H. Hilton-Jones), Shrewsbury.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to. One application under bye-law 63 (c) for a reduction in the period of service under articles was not acceded to.

Exemption from the Intermediate Examination

Five applications under bye-law 85 (a) for exemption from the Intermediate examination by articulated clerks who had produced evidence of having graduated by taking one of the degree courses approved by the Council under bye-law 62 were acceded to.

Intermediate Examination

One application under bye-law 81 for permission to sit an earlier Intermediate examination was not acceded to.

**Excess Profits Tax Post-war Refunds
Amendment of Recommendation XI**

The Council decided to publish the following statement:

(1) In Recommendation XI, Excess Profits Tax Post-war Refunds, issued on July 19th, 1946, the Council stated that

'this recommendation may need further consideration when official guidance is available as to . . . the intentions of Parliament with respect to the period within which moneys must be utilized or repaid to the Commissioners and the intentions as to the ultimate destination of balances on the specific reserve or suspense accounts arising from the refund'.

(2) In its announcement of November 8th, 1946, the Advisory Panel stated that it would expect the increase in net worth arising from the receipt of a refund 'to be shown and maintained separately on the balance sheet of the business as a capital reserve'. This has since been modified by the statement from the Panel (Annual Report, 1949, page 73) in reply to an inquiry from the Institute:

'Provided that it is quite clear that the full amount of the refund itself has been properly used, the Advisory Panel would not raise objection to the capital reserve created by the receipt of the refund being capitalized (either alone or in conjunction with other reserves) for the purposes of an issue of bonus shares.'

(3) On April 16th, 1953, the Economic Secretary to the Treasury stated that provision would be made in the Finance Bill for taxpayers to be released from existing undertakings and for future refunds to be paid without further undertakings. Accordingly, Section 32 of the Finance Act, 1953, contains provisions to that effect.

(4) The Council now recommends that, unless there exist special circumstances, the excess profits tax post-war refund reserve or suspense account should be classified as a reserve (capital or revenue, according to whether the amount is regarded as being available for distribution) without the necessity for any special description indicating its source and that, following Recommendation VI, it should cease to be shown separately in the balance sheet.

Internal Audit

On the report of the Parliamentary and Law Committee, following consideration of a memorandum prepared by the Taxation and Research Committee, the Council authorized the printing and issue to all members of the Institute of a pamphlet of notes on the relation of the internal audit to the statutory audit. The notes are reproduced at the end of this report of the Council proceedings.

Schedule A Maintenance and Other Claims by a Purchaser of Property

The Council has decided to draw the attention of members of the Institute to General Condition 24 (3) of the 1953 edition of the Law Society's Conditions of Sale. This condition is as follows and is reproduced by permission of the Law Society in whom the copyright in the conditions of sale is vested:

'(3) With regard to

- (a) any moneys spent on the property by the vendor or any predecessor in title of his;
- (b) any Government or other subsidy or grant received by the vendor or any predecessor in title of his in respect of such moneys;
- (c) any income-tax allowance made to or balancing charge levied on the vendor or any predecessor in title of his in respect of such moneys; and
- (d) the previous ownership and user of the property;

the vendor shall at the request and cost of the purchaser or his solicitors supply him or them with all such information as may be in the vendor's possession and as the purchaser or his solicitors may reasonably require for the purpose of preparing or completing a claim to any tax relief or allowance granted by the Income Tax Act, 1952, or any other statute or for ascertaining the purchaser's liability to income-tax.'

A purchaser wishing to obtain from the vendor the information necessary for the purpose of a taxation claim can therefore do so by incorporating this condition in the contract. He could also include a question on the matter in his inquiries before contract.

Summer Course, Christ Church, Oxford

The Chairman of the Summer Course Committee reported on the proceedings at Christ Church, Oxford, from July 10th to 15th, 1953. The Chairman reported that the President had sent letters of appreciation to the four speakers, to the governing body of Christ Church and all others concerned with the conduct of the course. The Council decided that the programme and full text of the four addresses should be reprinted in the form of a combined booklet similar to those prepared for previous courses. Copies are now being printed and will be obtainable shortly on application to the Secretary of the Institute, price 5s each, post free.

Remittances should be sent with applications which will receive attention as soon as the booklets are delivered by the printers. An order form will be sent to all members of the Institute.

The Council has approved the holding of a similar course from Thursday, September 9th, to Tuesday, September 14th, 1954. A further course has been provisionally booked from July 7th to 12th, 1955.

N.A.P.A.

The Council had under consideration a letter dated July 27th, 1953, from Mr R. Sproull (Senior), C.A., and others on the subject of the proposed formation

of a National Association of Practising Accountants (N.A.P.A.). The Council settled the terms of the reply to this letter and authorized the Secretary to request *The Accountant* to publish the reply in the event of the publication of Mr Sproull's letter.¹

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-six associates who have commenced to practise:

Abbott, Denis Edward; 1951, A.C.A.; (*J. Wild & Co), 74-76 Blackburn Street, Radcliffe, Lancashire.
 Andrews, Ian Herbert; 1938, A.C.A.; 17 Cumberland Road, Barnes, London, SW13.
 Bowyer, Geoffrey, M.A.; 1929, A.C.A.; (J. Earle Hodges, Wright, Judd & Co), Ridgway House, 41 & 42 King William Street, London, EC4.
 Burkett, John Brian; 1946, A.C.A.; (Ricketts, Cooper & Co), 21 Bridge Street, Bristol, 1.
 Bucknill, Thomas Richard Townsend; 1947, A.C.A.; (*Price Waterhouse & Co), 3 Frederick's Place, Old Jewry, London, EC2. (For other towns see *Price Waterhouse & Co.)
 Clarke, Philip; 1949, A.C.A.; (Greenhalgh, Son & Dutton), 20 Acresfield, Bolton; also at Manchester, (Womersley & Tweedale).
 Clarkson Webb, Michael Robert; 1952, A.C.A.; (Clarkson Webb & Co), Granville House, Arundel Street, London, WC2.
 Cooke, Dudley Greville, M.A.; 1952, A.C.A.; (W. H. Yates & Co), New Walk Gates, King Street, Leicester.
 Curtis, Robert Cyril; 1952, A.C.A.; (Robert Curtis & Co), 132 Hendon Way, London, NW2.
 Edwards, Joyce; 1936, A.C.A.; (E. Watts & Co), 7 Victoria Street, London, SW1.
 Evans, Ronald Graham; 1953, A.C.A.; 53 Wesley Avenue, Lyde Green, Cradley, Staffordshire.
 Guy, John Laister; 1950, A.C.A.; (Littlejohn, Wilson, McKnight & Co), 15 Cullum Street, Fenchurch Street, London, EC3; and (James E. Ward & Son), 18 Gower Street, London, WC1.
 Jasper, James Desmond, B.COM.; 1951, A.C.A.; (Jones & Jasper, 86 High Street, Cradley Heath, Staffordshire.
 Jolly, Donald Cyril; 1952, A.C.A.; 90 Alderney Gardens, Northolt, Middlesex.
 Lowe, Basil John Assheton, B.A.; 1946, A.C.A.; (A. Assheton Lowe & Co), 19A Coleman Street, London, EC2.
 Middleton, Trevor Carrick; 1953, A.C.A.; (Middleton & Middleton), 5 Saville Place, Newcastle upon Tyne, 1.
 Murray, Kenneth Ian; 1953, A.C.A.; St Stephen's Chambers, Telegraph Street, Moorgate, London, EC2, and at Croydon.
 Noble, Eric; 1937, A.C.A.; (*Eric Noble & Rothenberg), 7 Cheapside, Manchester, 2; also at London, (*Blick, Rothenberg & Noble).
 Redwood, Alfred Alexander Fleming; 1953, A.C.A.; (Ricketts, Cooper & Co), 21 Bridge Street, Bristol, 1.
 Richardson, Wilfrid Laurence; 1930, A.C.A.; (Harrison, West, Ledsam & Co), 33 Waterloo Street, Birmingham, 2, and at London.
 Sawtell, George Edward; 1953, A.C.A.; (Kenneth R. Morris & Co), Library Chambers, Church Street, Stourbridge, Worcestershire.
 Spurway, Eustace John; 1951, A.C.A.; (Nelson & Co), Graiseley Chambers, 39 Penn Road, Wolverhampton.
 Walters, Martin; 1952, A.C.A.; (Martin Walters & Co), 104 Upper Street, London, N1.
 Watkins, Richard Francis; 1949, A.C.A.; (A. C. Palmer & Co), 104 Upper Street, London, N1.

¹ The letters are reproduced on pages 204 and 205 of this issue. - Editor.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Co), Regent House, 45 Sheep Street, Northampton, and at Bedford and Rushden.

Wildbore, Leslie Matthew; 1926, A.C.A.; (Harrison, West, Ledsam & Co), 33 Waterloo Street, Birmingham, 2, and at London.

Wilson, Samuel Sidney; 1951, A.C.A.; 28 Charmian Avenue, Stanmore, Middlesex.

(2) That sixteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That one associate be elected to fellowship under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before August 18th will appear in *The Accountant* of August 22nd, 1953.

Election to Committees

Mr R. B. Leech was appointed a member of the Applications, District Societies and Finance Committees for the ensuing year.

Election to the Council

Mr Mark Wheatley Jones, B.COM., F.C.A., Manchester, was elected a member of the Council to fill the vacancy caused by the death of Mr Tom Walton, F.C.A., Manchester.

Appointment of Chairman and Vice-Chairman of Committee

The Secretary reported that Mr E. G. Turner had been appointed Chairman and Mr W. G. Campbell Vice-Chairman, of the Examination Committee for the ensuing year.

Registration of Articles

The Secretary reported that seventy-eight articles of clerkship were registered during the month of July, 1953, as compared with eighty-one in the previous July.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Charlie Bates, F.C.A., Cardiff.
 „ Michael Arthur Corley, A.C.A., Hull.
 „ Denzil Ernest Darker, F.C.A., London.
 „ Geoffrey Kilpack Deane, A.C.A., Dublin.
 „ Philip Percy Sargent, F.C.A., London.

NOTES ON THE RELATION OF THE INTERNAL AUDIT TO THE STATUTORY AUDIT

In view of the considerable number of organizations in which an internal audit is now in operation, the Council of the Institute of Chartered Accountants in England and Wales hopes that members will find these notes useful as a brief review of the relation of the internal audit to the statutory audit.

(1) The expressions 'internal audit', 'internal control' and 'internal check' are often used indiscriminately and it has therefore been considered necessary in paragraphs 2 to 5 below to distinguish internal control and internal check from what is meant in these notes by internal audit, of which a broad description is given in paragraph 6. The expression 'statutory audit' is used primarily to mean an audit under the Companies Act, 1948, but most of the notes apply also to audits under other statutes, for example the audit of nationalized undertakings.

Internal Control and Internal Check

(2) Internal control is best regarded as indicating the whole system of controls, financial and otherwise, established by the management in the conduct of a business, including internal check, internal audit and other forms of control.

(3) Internal check is best regarded as indicating the checks on the day-to-day transactions which operate continuously as part of the routine system, whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors and fraud. Internal check therefore includes such matters as the allocation of authorities, the division of work, the proper method of recording transactions and the use of independently ascertained totals against which a large number of individual entries can be proved, such as a sales ledger control account.

(4) The soundness of the system of internal check and the manner in which it is carried out are matters of fundamental importance to the statutory auditor. It has long been recognized that these matters determine to a great extent the amount of examination of detail which the statutory auditor considers it necessary to undertake. The growing practice of having an internal audit has now made it necessary to consider what effect, if any, the work of the internal auditor may have upon the work of the statutory auditor. It is hoped that these notes will be useful as a brief review of the relation between the two audits.

(5) Persons who are engaged exclusively on work which is a necessary part of the internal check are sometimes described as internal auditors. Work of this kind, such as the routine checking of statements before they are sent out to customers, or of creditors' accounts before they are paid, does not constitute internal audit even when carried out by persons who also undertake other duties which can properly be so described. It is desirable to make this clear at the outset, as these notes are not directly concerned with any work which is an integral part of the system of internal check.

Internal Audit

(6) An internal audit is a review of operations and records, sometimes continuous, undertaken within a business by specially assigned staff. The scope and objectives of the internal audit vary widely in different businesses and may, particularly in large organizations, extend to many matters which are not directly of an accounting nature. The internal auditor's duties on non-accounting matters would not normally be a matter for consideration by the statutory auditor and they are therefore not considered further in these notes. On accounting matters the main objective of an internal audit is to assure management that the internal check and the accounting system are effective in design and operation. In practice, the internal auditor may often be required to report also on whether the system of accounting and the internal check are economical. Internal audit is part of the whole system of internal control, but is not an integral part of the internal check or the accounting system. Two essential features of an internal audit are that it should operate independently of the internal check and that in no circumstances should it divest anyone of the responsibilities placed upon him.

Field of Relationship between Statutory and Internal Auditor

(7) On accounting matters the internal auditor and the statutory auditor operate largely in the same field and they have a common interest in ascertaining that there is:

- (a) an effective system of internal check to prevent or detect errors and fraud and that it is operating satisfactorily;
- (b) an adequate accounting system to provide the information necessary for preparing true and fair financial statements.

(8) Although the two forms of audit have a common interest in the important matters mentioned in the preceding paragraph, there are some fundamental differences:

- (a) *Scope.* The extent of the work undertaken by the internal auditor is determined by the management whereas that of the statutory auditor arises from the responsibilities placed on him by statute.
- (b) *Approach.* The internal auditor's approach is with a view to ensuring that the accounting system is efficient, so that the accounting information presented to management throughout the period is accurate and discloses material facts. The statutory auditor's approach, however, is governed by his duty to satisfy himself that the accounts to be presented to the shareholders show a true and fair view of the profit or loss for the financial period and of the state of the company's affairs at the end of that period.
- (c) *Responsibility.* The internal auditor's responsibility is to the management whereas the statutory auditor is responsible directly to the shareholders. It follows that the internal auditor, being a servant of the company, does not have the independence of status which the statutory auditor possesses.
- (d) Notwithstanding these important differences, the work of both the internal auditor and the statutory auditor, on accounting matters, is carried out largely by similar means, such as:
 - (i) examination of the system of internal check, for both soundness in principle and effectiveness in operation.
 - (ii) examination and checking of accounting records and statements;
 - (iii) verification of assets and liabilities;
 - (iv) observation, inquiry, the making of statistical comparisons and such other measures as may be judged necessary.

Co-operation between Statutory and Internal Auditor

(10) It will be evident from the preceding paragraph that the similarity between the means by which the statutory auditor and the internal auditor carry out their respective duties is such that without co-operation between them there could be unnecessary duplication of work.

(11) Because of his experience acquired in public practice, the statutory auditor may be of assistance in an advisory capacity in connection with the installation and subsequent operation of an internal audit; and in carrying out his duties he may derive much assistance from the internal auditor's intimate knowledge of the accounting system and technical knowledge of the

business, particularly in connection with stock-in-trade, the physical existence of fixed assets, depreciation charges, the ascertainment of liabilities and the risks of fraud or misappropriation.

(12) There also exists considerable scope for mutual assistance between the two auditors in the planning of their respective audits. Where the statutory auditor is satisfied that the internal auditor has adequately covered part of the work which the statutory auditor would otherwise do, he may be able to reduce the extent of his examination of detail; and consultation between the two auditors may enable the internal auditor to refrain from carrying out work which he would otherwise do but which, having regard to the examination which the statutory auditor considers he must make in any event, would result in duplication. Examples of specific ways in which the work of the two auditors may be co-ordinated are:

- (a) The statutory auditor may be able to rely to a large extent on the internal auditor in determining whether the system of internal check is operating satisfactorily and in assessing the general reliability of the accounting records.
- (b) The programme of the internal auditor may include, by agreement, work which has the effect of giving direct assistance to the statutory auditor by participating during the accounting period in matters such as cash counts and visits to branches, made either by the internal auditor alone or jointly with the statutory auditor.
- (c) The internal auditor may arrange his programme at the end of the accounting period so that assistance is given to the statutory auditor in connection with matters such as the confirmation of customers' accounts, verification of assets such as stock-in-trade and the preparation

of audit working schedules required by the statutory auditor for his records.

(13) The internal auditor's responsibility is to the management and he is in no sense a servant of the statutory auditor. It follows therefore that the extent to which the internal auditor can so arrange his work as to be of specific assistance to the statutory auditor will depend upon decisions of the management as to the scope of the internal audit and the number of staff employed thereon. Consultation between the two auditors, and where necessary with the management, should, however, ensure that so far as is practicable the fullest possible assistance is available to the statutory auditor.

(14) It is for the statutory auditor to decide whether and to what extent, consistently with his statutory responsibilities, he can rely on the work of the internal auditor in order to reduce the extent of his own examination of detail. His decision will depend upon his judgment on the facts of each case, having regard particular to:

- (a) the extent and efficiency of the internal audit. In order to assess these matters the statutory auditor should examine the internal audit programmes, working papers and reports and should make such tests as he thinks fit of the work done by the internal auditor;
- (b) the experience and qualifications of the chief internal auditor and his staff and the character of their reports;
- (c) the authority vested in the chief internal auditor and the level of management to which he is directly responsible.

The statutory auditor cannot in any circumstance divest himself of the responsibilities laid on him by statute.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on July 8th, 1953.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Edwin Clifford Thorne, F.C.A. (a) was at the Bow Street Magistrates Court on December 4th, 1952, convicted as liquidator of a limited company for failure to send to the Registrar of Companies the statement required by Section 342 of the Companies Act, 1948, with respect to the company; (b) was at the Bow Street Magistrates Court on December 4th, 1952, convicted as liquidator of a second limited company for failure to send to the Registrar of Companies

and wilfully permitting default to be made by the company in forwarding to the Registrar of Companies the annual return for the year 1948 contrary to Sections 126 and 440 of the Companies Act, 1948; (c) had been guilty of a default discreditable to a member of the Institute within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that he failed to reply to two letters addressed to him by the Secretary of the Institute so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Edwin

defaults discreditable to a member of the Institute within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that he (a) having been suspended from membership of the Institute (i) continued to describe himself as a chartered accountant and to use the letters 'A.C.A.' as a partner in his firm; (ii) despite repeated requests, failed to deliver up to the Secretary of the Institute his certificates of membership and practice as required by bye-law 112; (b) failed to reply to or to comply with the requests contained in five letters from the

Secretary of the Institute and one letter from the Institute's solicitors, all relating to matters arising out of his suspension from membership of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Reginald Frank, A.C.A. had been proved under both headings and the Committee ordered that Reginald Frank, A.C.A., of Corbar, St Eric's Road, Bessacarr, Doncaster, be excluded from membership of the Institute.

NOTES AND NOTICES

Personal

MESSRS RUSSELL & BISHOP, Chartered Accountants, of 8 New Street, Leicester, announce that Mr J. A. BUTTERFIELD, A.C.A., who has been associated with the practice for several years has now joined the firm as a partner. The name of the firm will remain unchanged.

MR B. PHILLIPS, F.S.A.A., practising under the style of BERNARD PHILLIPS & Co, Incorporated Accountants, at 76 New Cavendish Street, London, W1, announces that Mr HARRY NEWMAN, A.C.A., A.S.A.A., and Mr LESLIE COHEN, A.S.A.A., who have been associated with him in the practice since its inception, have been admitted as partners. The name of the firm remains unchanged.

MESSRS ARTHUR STUBBS & SPOFFORTH, Chartered Accountants, announce that they have changed the address of their Worthing office from 10 Shelley Road, Worthing, to 'Tudor Court', 52 Richmond Road, Worthing. Telephone: Worthing 3469 and 7929.

Professional Note

Mr W. G. A. Russell, F.S.A.A., has been elected a director and appointed chairman of Glynwed Tubes Ltd.

In Parliament

POST OFFICE SAVINGS BANK BOOKS: TAX NOTICES

Sir J. CROWDER asked the Financial Secretary of the Treasury whether a decision has yet been reached on the suggestion to print in Post Office savings bank books a note about liability to income-tax.

Mr JOHN BOYD-CARPENTER: Yes, Sir. Her Majesty's Government have decided to accept the suggestion made by my hon. friend, and other hon. Members, and new Post Office savings bank books will in future contain a reminder that depositors who make

a return of income for income-tax purposes should include therein any interest on the deposits.

Hansard, July 28th, 1953. Oral Answers. Col. 1084.

TERRITORIAL OFFICERS: INCOME TAX

Sir W. SMITHERS asked the Chancellor of the Exchequer if he will take steps to relieve Territorial officers from paying income-tax on pay received on training or in camp, particulars of which have been sent him.

Mr R. A. BUTLER: No, Sir. Training expenses allowance is free of income-tax, but I am afraid that it would not be fair to others performing paid public service to treat exceptionally the pay received by Territorial officers.

Hansard, July 28th, 1953. Oral Answers. Col. 1073.

Institute of Cost and Works Accountants

Following representations made by the Institute of Cost and Works Accountants, the National Joint Council for Local Authorities has agreed that the Institute's Intermediate examination will in future be recognized for promotion up to the grading of APT IV, and the Final examination beyond APT IV and all the way through the scale. Previously only candidates successful in the Final examination were considered for promotion.

The Nottingham Chartered Accountant Students' Society

The report of the committee of the Nottingham Chartered Accountant Students' Society for the year ended May 31st, 1953, which was presented at the Society's forty-first annual meeting held on July 25th, records a further increase in membership which now totals 305.

Twenty-two lecture meetings were held during

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the year, including five meetings at which two lectures were given, and tea was provided at each meeting by the chairman; attendance, however, was disappointing and the Committee hopes that students will endeavour to attend as many lectures as possible during the coming winter session.

The Society's annual dinner was held at *The Victoria Station Hotel*, in December, and was attended by 129 members and guests, while the annual dinner dance, held in February, at *The Black Boy Hotel*, again proved a great success.

The following officers have been elected for 1953-54:

President: Mr J. B. Burnie, F.C.A.

Vice-President: Mr C. P. Broome, F.C.A.

Chairman of Committee: Mr O. V. Black, A.C.A.

Hon. Auditor: Mr E. R. Hill, F.C.A.

Hon. Secretary: Mr J. G. Craig.

Hon. Treasurer: Mr R. C. Smith.

Hon. Librarian: Mr M. G. Gisborne.

Committee: Messrs K. D. Cummings; J. S. Dobsón; R. J. Foot; M. J. Fardell; G. L. Gilks; P. R. Hannah; E. Hill; R. A. G. Kidd; G. F. Pepper, A.C.A.; C. M. Ross; P. J. Walker.

Office Equipment Exhibition in Wales

A regional Business Efficiency Exhibition is to take place in Cardiff from September 14th to 17th. The exhibition, which is being held under the auspices of the Office Appliance and Business Equipment Trades Association, will be opened at Dumbries Place Drill Hall by the Lord Mayor of Cardiff.

Office Management Association

GLASGOW AND WEST OF SCOTLAND BRANCH

The third annual one-day conference of the Glasgow and West of Scotland Branch of the Office Management Association is to be held on October 20th.

The conference, which will be on 'Copying, duplicating and printing', is to be opened by Mr Walter Smith, B.Sc., the American Consul in Glasgow, and the speakers will be Mr F. J. Neale, Works Study Department, I.C.I., Billingham Division, who will speak in the morning session on 'Office copying and duplicating', and Mr J. P. Richardson, M.A., Assistant Registrar to the University of Glasgow, who will speak on 'Office printing', at the afternoon session. Each paper will be followed by open discussion.

There will be an exhibition of office machinery and equipment appropriate to the subject of the conference, and this year the exhibition will remain open during the complete conference session.

Our Contemporaries

THE SECRETARY. (August.)

THE INTERNAL AUDITOR. (Stamford, Conn.) (June.)

ACCOUNTANCY. (August.)

THE COST ACCOUNTANT. (August.)

THE ACCOUNTANT'S DIGEST. (Burlington, Vermont.) (June.)

THE ACCOUNTANTS JOURNAL. (July.)

THE CANADIAN CHARTERED ACCOUNTANT TAX REVIEW (Toronto.) (June.)

THE JOURNAL OF ACCOUNTANCY. (New York.) (July.)
'New Developments in Auditing by Independent Certified Public Accountants', by Alvin R. Jennings C.P.A.

THE ACCOUNTANTS' MAGAZINE. (July.)

THE C.P.A. (New York.) (July.)

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (July.)

N.A.C.A. BULLETIN. (New York.) (July.)

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 18TH, 1928

Extract from Weekly Notes.

A Daniel Come to Judgment

That "a little learning is a dangerous thing" has long been known to be true of the law but we have seldom come across so clear a reminder that it is also true of studies *within* the law as that contained in cutting from a recent issue of the *Blackpool Gazette and Herald* which a reader has kindly sent us. His Honour Judge F. E. Bradley was inspecting some accounts on which there were alterations. "I do not know why it is," said he, "but 99 people out of ever 100, when they have made a mistake, cross out the figure and put another one over it. The right thing to do is to erase the figure and replace it with another one. People can then understand everything without difficulty." So now we know, and when we go to Blackpool, we shall go supplied plentifully with eraser; but while we pursue our blundering way in London we shall modestly number ourselves with the ninety and nine unjust bunglers of his Honour acquaintance.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 17TH, 1878

"ACCOUNTANT" SITUATION LIST

Replies to be addressed to the Number stated, at the Accountant Office, 62 Gracechurch-street, E.C.

NO.	DESCRIPTION.	EXPERIENCE.	SALARY.	AG.
45.	Book-keeping, double entry, German, French, and English.	3-4 years	£120	.....
49.	Book-keeping, single and double, Correspondence, Shorthand	13 "	£100 per annum	.....
50.	Auctioneers' Clerk	8 "	£1 per week	.....
52.	Auditing and Bankruptcy	10 "	£2 10s. per week	.....
53.	Clerk to Accountants	—	£70 per annum	.....
54.	Accountancy, double entry, and Correspondence	26 years	£150 to £200	.....
55.	Clerk, quick at figures	5 "	£100 prog.	.....
56.	Accountants' Cashier, correspondence	25 "	£120 per annum	
57.	Auditing, Bankruptcy, Liquidation	15 "	£160	

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The Accountant

ESTABLISHED 1874

AUGUST 22ND, 1953

VOL. CXXIX. NO. 4105

CONTENTS

Leading Articles	Page
A New Responsibility	213
The Finance Act, 1953 - III	214
Farm Accounts as a Guide to Efficiency	216
Ordered Odds	217
Special Article	
Auditing Tests by K. W. Walker, B.A., A.C.A.	218
Lecture	
Taxation, other than Taxation on Income by P. F. Carpenter, F.C.A.	222
Weekly Notes	
Cost Accountants' Examinations - Loans from Counterpart Funds - Best Exports this Year - Italian Steel Tariffs - New Shipping Freight Index	229
Reviews	230
Finance and Commerce	
Patons & Baldwins Ltd - Concrete Ltd - International Bitumen Emulsions Ltd - Burton, Son & Sanders Ltd - Money Market	231
Correspondence	
Profits Tax: Director-Controlled Companies: Repaid Loans - Accounting for Inflation - Schedule E: Expenses - 'Inhuman Efficiency'	234
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Associates elected to Fellowship; Meeting of the Taxation and Research Committee - Personal - The late Mr H. Crewdson Howard, F.C.A. - Union of Chartered Accountant Students' Societies - Chartered Accountants' Hockey Club - Taxation Lectures - Twenty-five Years Ago - Seventy-five Years Ago	236
The Institute of Cost and Works Accountants	
Results of the examinations in June 1953	239

A NEW RESPONSIBILITY

THE vision which brought about the nationalization of certain of this country's major industries immediately after the last war did not seem to include in its focus the refinement of adequate Governmental supervision. This may have been due to the fact that the various operations were executed much too rapidly to allow time for detailed planning or, even more incomprehensibly, to unawareness of the elemental law that the larger and more diffuse the undertaking, the more explicit should be the arrangements for efficient management and control. In consequence, Parliament appointed a Select Committee last November to consider the changes which might be desirable in the present methods of informing the House of Commons of the affairs of the nationalized industries.

The report of this Committee was published last week.¹ The principal suggestion it contains is that a permanent committee of the House of Commons should be set up to study the published reports and accounts of those undertakings whose controlling boards are nominated by the Government but whose revenues are not wholly provided by Parliament or advanced by the Exchequer. It is emphasized that the object of such a committee would be to inform Parliament of the progress and problems of these undertakings and not to control their work or policies. It is proposed that the staff of the committee should include a House of Commons' officer of the status of the Comptroller and Auditor General and at least one professional accountant.

The Select Committee's findings are of special importance to practising accountants because it also recommends that the statutory auditors of nationalized concerns should give, in addition to their annual reports on the accounts, such further information as may be of use and interest to the new committee and to Parliament. The scope and extent of this information are indicated in the memorandum and minutes of oral evidence given on behalf of The Institute of Chartered Accountants in England and Wales, both of which are reproduced in full in the report, together with other submissions. While the Committee appears unconvinced that statutory auditors could or should be asked to take on the task of the Comptroller and Auditor General, it agrees that an extension of their activities to include surveys of the financial backgrounds of the undertakings and of the broad policy issues of their boards would be useful. The general objectives of Government accounting appear so remote from those of modern professional practice that this opportunity to bring the two more in line, will be welcomed by the profession.

¹ Report from the Select Committee on Nationalized Industries, H.M.S.O. 4s net.

THE FINANCE ACT, 1953—III

Section 19 (4) (b): Cessation Adjustments

SECTION 19 (4) (b) applies if the following sequence of events takes place:

- (a) a 'change' within Section 19 (1) occurs;
- (b) an election for the 'continuing basis' is made in respect of that change; and
- (c) subsequently another event occurs, as a result of which the cessation provisions are applied, either (i) because the event was a 'change' within Section 19 (1) and the continuance option was exercised, or (ii) because the event was the permanent discontinuance of the trade.

It is a commonplace of income-tax that the cessation provisions in Section 130 (1) of the Income Tax Act, 1952, give the Revenue power to increase the assessments for the final and penultimate years to the actual profit—where necessary. The decision in *Osler v. Hall & Co* ([1933] 17 T.C. 68; 11 A.T.C. 253) laid it down, however, that this power did not extend to a period prior to the first 'change' in (a) above. In consequence, some partnerships have adopted the device of two successive changes, opting for the cessation provisions on the second change, and have thus been able to reduce their aggregate tax liability. Section 19 (4) (b) now removes the restriction on the Revenue's power of raising additional assessments. It applies only to changes taking place after April 5th, 1953, but is nevertheless to some extent retrospective since it creates a power to raise an additional assessment for 1952-53 where a penultimate year adjustment is appropriate.

Section 19 (2): Carry-forward of Loss notwithstanding Cessation Provisions

Whereas Section 19 (4) (b), discussed above, closes a loophole, Section 19 (2) prevents what would otherwise be an injustice. A 'change' within Section 19 (1) brings the automatic application of the cessation provisions unless the Section 19 (3) option is exercised. Such an option requires unanimity which is not always easy to achieve, particularly as there will often be at least one partner who stands to benefit from the application of the cessation provisions.

A continuing partner who had a share of loss or of accumulated capital allowances available for carry-forward would be anxious to avoid the cessation provisions, since under the old law these would deprive him of the right to carry forward losses etc. (*United Steel Companies Ltd v. Cullington* ([1940] 23 T.C. 91; 19 A.T.C. 132)). Under the old law, the cessation provision could not be applied against his will, because in the absence of a unanimous option for cessation the continuing basis applied. As this safeguard is now removed by Section 19 (1), compensation is provided by Section 19 (2).

Section 19 (2) (a) provides that for the purpose of carry-forward of losses under Section 19 (3) (dealt with in Article I) or under Sections 342 and 343 of the Income Tax Act, 1952, the trade etc. is to be treated as continuing notwithstanding Section 19 (1). Thus the continuing partner can have his share of former losses set off against future profits of the partnership (Section 342) against his income from a company to which the partnership business is transferred (Section 343) or against his other income in the following tax year (Section 15 (3) of the Finance Act, 1953).

Section 19 (2) (b): Loss forward Relief in Same Year

Under the old law, Section 342 relief for the carry-forward of loss cannot be claimed for the same year in which the loss was incurred. If relief is desired for the same year it has to be claimed under Section 341 (the former 'Section 34 relief'). Section 19 (2) (b) modifies this restriction by allowing the continuing partner where the cessation provisions are applied, to set his share of the pre-change loss against his share of the post-change profit. However, if there is a profit before the change and a loss immediately after it, he cannot carry the loss back, although of course the old 'Section 34 relief is still open to him.

Section 19 (2) (c): Carry-forward of Capital Allowances

Section 19 (2) (c) deals with the accumulated capital allowances (under Parts X and XI of the Income Tax Act, 1952) of the continuing partner. It does not provide in terms that these shall

(or a population, to use the statisticians' technical term) containing 5 per cent of errors, or in samples of 58 items drawn from a population where the percentage of error in the whole is 4 per cent, and so on. On the same line in column 1 will be seen the entry '0'. This means that in nine cases out of ten, where there is an expectation of 2.3 errors at least one error or more will be found. Similarly, if the expected number of errors is 8, as it will be in a sample of 400 drawn from a population with 2 per cent of errors, then in nine cases out of ten more than four errors will be found. The significance of this is that if the number of errors in a sample is equal to or less than the corresponding number in column 1, it is likely in nine cases out of ten that the proportion of errors in the whole population is less than the percentage assumed.

For example, if one error is found in a sample of 100 items, then by finding the entry '1' in column 1 as the actual number of errors and following along the line, it will be seen that more than one error will occur in 90 per cent of cases where samples of 98 are taken from a population with 4 per cent of errors. As only one error has occurred in a sample of 100, there is a nine to one probability that the percentage of errors in the whole from which the sample was drawn does not exceed 4 per cent. If one were to continue testing until a second error were found after a total of 250 items had been checked, then there is this nine to one probability that the percentage of error in the whole is not greatly above 2 per cent.

The probability of 90 per cent has been chosen as it is considered that this represents a high level of probability, but tables can, of course, be constructed for any other level of probability considered suitable.

Supplements Auditing Experience

The use of such a table may be criticized by some on the ground that it would make auditing mechanical and rob the auditor of any initiative and discretion, but it will easily be seen that this is not so. There is still a wide field left for the exercise of individual judgment in selecting the portions of work, which are to be the subject of checking, so as to ensure a comprehensive coverage of all types of transaction, and again in deciding the steps to be taken when the results of the test-check indicate the probable percentage of error in the whole. It will still need the professional experience of the auditor to be applied to the facts of the individual case to decide

whether the likely proportion of errors is merely what is only to be expected from minor clerical errors of no real significance, or whether it is symptomatic of something more serious, showing either an intentional manipulation of the figures or else clerical errors of so frequent and widespread a nature that the accounts cannot be said to give a true and fair view without more comprehensive checking.

It may then be asked: in what respect is an auditor using these statistical methods any better off? The answer is that he does at least know the significance of the amount of test-checking that he has done and of the number of errors he has brought to light. If he is taking a risk, he is taking it with his eyes open, while those following the traditional checks, of which one week in four or every third item are typical examples, are doing little more than trusting to luck.

Some, to whom this idea is being presented for the first time, may be a little confused by the statement that the probability that the number of errors not exceeding a certain figure is 90 per cent. This means that in nine cases out of ten the errors in the whole population out of which the sample is chosen will not exceed the stated proportion. The critic will no doubt point to the tenth time and say that the system is not infallible. It does not claim infallibility; the only way in which it is possible to be absolutely sure that there are no errors in a set of books is to check every item and not to rely on testing. Where every error is significant and has to be found, this is the only possible course.

The Exceptional Case

Where testing is carried out on the basis of the table given, it will happen that in about one case out of every ten the proportion of errors in the whole will be rather more than that indicated by the table. This does not mean that the audit is not carried out properly in those cases, but that in one particular section of the audit the proportion of errors is higher than the auditor would have expected. It should be apparent that this is not a failing of the system, but is a state of affairs which is always liable to be present and that the use of statistical methods has only shown the probability of its existence, which would otherwise have passed unnoticed.

Where the position does arise that there is a higher proportion of errors than would have been expected, it is unlikely that if these errors are of sufficient importance to affect the true and fair view which the accounts are required to show,

there will not be resulting errors in other sections of the audit, which will become apparent when those other sections are dealt with. For example, purchase invoices wrongly entered will produce ledger balances which are not in accordance with the suppliers' statements and so on, thus providing a further check, when these are vouched in their turn.

The reverse may, of course, happen occasionally when the section of the work tested shows a large percentage of errors. In such a case the auditor will continue checking until a much larger sample has been tested, as would be done in any case where an auditor is not satisfied with the result of his testing. Should it be that the proportion of errors in the sample selected for testing is disproportionally high in comparison with the whole, this will soon be revealed by their reduction or absence in the further samples tested. On the other hand, if a large number of errors exist throughout, this will be shown by the proportion being maintained during the further tests and the auditor will probably think it necessary to continue even to the extent of a complete check, until he is finally satisfied that the books are in order.

Considerations of a Sample for Testing

It will, no doubt, have been noticed that in the examples quoted and in the table that reference has been made to the number of items tested and not to the proportion. This is because the theory of sampling is based on the assumption that the sample reflects the whole of the population from which it is drawn and contains the same proportion of errors as would be found in the whole. Thus, if in a given case 10 per cent of the inventory extensions were incorrect, a sample test of (say) 100 items should show this proportion, whether the stock sheets contained 1,000 or 10,000 items. This principle is, in fact, generally adopted in auditing as the proportion of items tested is usually less in a large audit than in a smaller one. If the internal check does not allow this, then it is no case for testing, but one demanding a complete check.

Although it is not necessary to understand mathematical statistics or the methods of calculating the table in order to make use of it, it is necessary to remember that it is not an automatic auditor, but that intelligence must be used in its application. Firstly, the auditor must play fair and if the selected sample should show more errors than has been decided to be permissible, he must not try to find a further sample in the

hope that this may conform to his requirements and enable him to dispense with the need for a more extensive check. Again, it is most important that all phases of the accounts should be covered by the various samples selected for testing. It is most dangerous to generalize from the results of a sample that is not representative of the whole; and so to avoid any bias it is important that the sample should be picked at random. It is usually possible to select evidence to support any verdict and if the auditor is always going to choose, or to avoid, a particular section of the work when picking his sample, then the results may not necessarily be always representative of the whole.

This will not prevent the sample from being chosen with regard to the relevant conditions. In the case of a large audit, although as stated above, there is no need to maintain the same proportion of items selected for testing as in a smaller one, since a sample of a given size will serve as an indication of the percentage of error in the whole population, however large it may be, it will usually be considered advisable to draw a somewhat larger sample or to divide each section into several subsections, each to be tested separately by sampling. This is in recognition of the fact that in a larger field, there is more scope for variation in quality than in a smaller one where it has been possible for the responsibility for the work to be more centralized, and an increase in the sample size or a break-down of the population into smaller groups will facilitate the representation of these variations in the samples.

Again, not all items are of equal significance and it is possible to recognize this fact without, in any way, disturbing the random nature of the selection of a sample. This may be done by breaking-down the section to be tested and drawing a sample from each subsection in turn. In vouching invoices, for example, the auditor will doubtless wish to vouch a much higher proportion, or even all, of the invoices relating to capital expenditure. These may be picked out and then a selection of the remainder tested. Similarly, inventory extensions over (say) £100 may be subjected to a more stringent test than the smaller items.

Size and Direction of Errors: A Test for Bias

It may be asked if statistical methods are of use in considering the size of errors. They have not been found to be of assistance here as the size of any error is affected by the column in which the

AUDITING TESTS

CAN WE CHECK THE TESTS?

by K. W. WALKER, B.A., A.C.A.

WITH the development of 'test-checking' as the modern technique in auditing the accounts of the large businesses of today, the question arises as to how much testing the auditor should do before he is satisfied that it can be safely assumed that the rest of the items are similarly correct. If an auditor vouches, for example, one week's purchase invoices out of each month and finds them to be in order, can he safely assume that his testing is sufficient? Suppose that he failed to detect various discrepancies, which occurred in the untested weeks, would the client accuse him of negligence and produce some other accountant, who would testify that he would have tested some different proportion which in the light of his after-acquired knowledge would have ensured that the errors were brought to his notice?

This problem appears even more acute when testing does bring to light a few errors and discrepancies in the items chosen for test. Is the auditor entitled to assume that these are the exceptions, which prove the rule that the books are otherwise correct, or is he to be on his guard and probe everything to the bottom?

This is a problem, which is by no means insuperable, nor is it unknown in other occupations. Manufacturing businesses, particularly those engaged in repetition work involving many small items, are faced with the problem of inspection. If batches of goods are produced containing many defective items, due to (say) errors in setting machines or to inherent defects of the material, considerable loss will, of course, result, while if the defective batches were not detected before dispatch to customers, there would, in addition, be a risk of damage to the manufacturer's goodwill. On the other hand, to inspect each and every item in an endeavour to make sure it was free from fault would probably increase overhead expenses to a prohibitive level. The wise manufacturer steers a middle course between these two dilemmas by inspecting samples from each batch and considering the results of this examination in the light of statistical analysis.

The Statistical Approach

This is much less formidable than it sounds

and a similar technique could be made use of in auditing. Common sense, rather than mathematical knowledge, is required, in the same way that many people take advantage of logarithm tables to speed up calculations although they have not the slightest idea how the logarithms were computed or of their underlying theory. After inspecting a sample, it is possible by the use of suitable tables to say what is the probability that the proportion of defectives in a batch lies between certain limits. By the application of this method, Table I below has been prepared and from this, the auditor, after examining the sample selected for test-checking, would be able to form an opinion with 90 per cent certainty of the probable upper limit of the percentage of errors in the whole portion of the work, from which the sample was drawn.

TABLE I
SAMPLING TABLE FOR 90 PER CENT PROBABILITY

(1) Actual number of errors will exceed	(2) Average number of ex- pected errors	Size of Samples expected to show average error					Per- centage of errors in pop- ulation
		5 %	4 %	3 %	2 %	1 %	
0	2.3	46	58	77	115	230	
1	3.9	78	98	130	195	390	
2	5.4	108	135	180	270	540	
3	6.8	136	170	227	340	680	
4	8.0	160	200	267	400	800	
5	9.2	184	230	307	460	920	

Some explanation of this table is necessary. It is described as a 90 per cent probability table, as it is calculated on the basis that the actual number of errors entered in column 1 will be exceeded in 90 per cent of the cases tested, assuming that the distribution of these errors is due to chance.

The first entry in column 2, namely 2.3, is the average of the number of errors which one would expect to find in a number of samples, each containing 46 items, drawn from a field

incorrect figure is situated. A column over-cast by £100 is naturally a more serious error than an over-cast of £1, but it is nevertheless quite possible that the latter contains more mistakes. Again, for example, if an error of transposition were made in writing £987, the error would be very different according to whether the figures transposed were the nine and eight or the eight and seven.

In certain fields, such as stock extensions, genuine clerical errors should be as likely to be in excess of the true figure as below it, whereas if anyone is seeking to manipulate the figures, the errors would tend to be mostly one way, depending on whether they wished the total to be increased or decreased.

It is possible to test for bias of this nature by dividing the difference between the number of errors in each direction by the square root of the total number of errors in the sample. The following table shows the probability that any given result will be exceeded by chance.

TABLE II
TEST FOR BIAS

1.0	..	32 per cent
1.5	..	13 per cent
2.0	..	5 per cent
2.5	..	1.3 per cent
3.0	..	0.3 per cent

Thus, if the result be 1, it will be seen that this is a difference which can be exceeded by chance in approximately 32 per cent of the cases tested and would not be indicative of any undue bias. A result of 2.5 would, however, only be exceeded in 1.3 per cent of the cases tested if it were due to chance alone and would therefore provide a strong suggestion that there is some other factor, which would require investigation.

Scope Covers all Testing

Most of the examples quoted have referred to the testing of inventory extensions or the vouching of purchase invoices. These are, perhaps,

AUTHOR'S NOTE.—I have purposely avoided mathematical formulae, etc., but for the benefit of those interested I should explain that Table I is constructed from the exponential series, which has been used in statistics to calculate the probability of rare events. Errors found in auditing should be relatively infrequent and so are suitable subjects for the application of this formula. It would not be suitable for computing the probability of various results obtained in tossing coins, or problems of that type.

The formula connecting the results in the table is that the expected number of errors is that value of x which makes the sum of $(n+1)$ terms of the series

$$\left(1 + x + \frac{x^2}{2!} + \frac{x^3}{3!} + \dots\right) = \frac{e^x}{10}$$

where n is the actual number of errors, and e is the base of natural logarithms.

The formula for testing bias in errors is based on the normal curve of error. Discussions of these formulae, together with proofs will be found in books dealing with statistics and the theory of probability.

two of the most useful fields in which statistical theories may be applied, but they may also be used in many other parts of the audit. The results of all vouching tests may be looked at in this way, and consideration of the statistical significance of posting errors may draw attention to a case where total accounts have masked a number of compensating errors and mis-postings.

Summary

To sum up the argument of this article, it is submitted that the statistical methods employed in manufacturing production control might be profitably employed by the auditor, who is engaged in test-checking, as the problem in each case is similar—namely, to ascertain that the material tested is satisfactory and yet to achieve this result as efficiently and economically as possible. These tests do not constitute a new technique in auditing so much as a device to interpret the results shown in tests carried out by existing practices. While no knowledge of advanced mathematics is required, the use of statistics does not make auditing mechanical or rob the auditor in any way of the opportunity to use his intelligence. On the contrary, he needs judgment to decide on the action to be taken as a result of the statistical tests and also to ensure that the material chosen for the test is homogeneous and a representative sample of the population from which it is taken.

The use of such ideas in auditing is new and hardly developed as yet, and further study will no doubt produce improved techniques and show wider fields in which statistics may be of service to the auditor. There are even now other sampling formulae, such as those for sequential sampling, which was developed in the United States during the war, and which will probably prove to be equally useful to the auditor, but a full discussion of such systems would not be possible in an introductory article of this nature designed to arouse interest in and to indicate some of the possibilities of this new adjunct to auditing.

TAXATION

OTHER THAN TAXATION ON INCOME

by P. F. CARPENTER, F.C.A.

Introduction

1. It is probably true to say that most practising accountants find that 'taxation' is one of the principal features of their practice, and candidates for the Institute examinations also have to devote a considerable part of their studies to this subject. A student, asked to give a comprehensive definition of the subject 'taxation' might suggest that it comprised:

'The law and principles of income-tax, sur-tax, profits tax and excess profits levy; and their application. The preparation of computations for submission to the Inland Revenue.' He might add that there were also some other taxes and that the subject 'executorship' covered death duties.

2. It is perhaps somewhat surprising to find that the direct taxes with which the accountant deals, make up rather less than one-half of the total receipts from taxes as given in the Annual Financial Statement known as the 'Statement of Revenue and Expenditure as laid before the House by the Chancellor of the Exchequer when opening the Budget'.

3. There is set out in Schedule 1 (a) to this paper a statement of the net receipts from taxes for the fiscal year 1951-52 as contained in the Financial Statement and the reports of the Commissioners of Her Majesty's Inland Revenue and of the Commissioners of Her Majesty's Customs and Excise for that year, and also the taxes not dealt with by the two bodies of Commissioners, namely:

- (a) Motor vehicle duties;
- (b) Rates collected by local authorities.

There are, in addition, the contributions under the National Insurance Acts, which are in some degree a form of taxation.

4. Although the accountant may not be called upon to deal with these other forms of taxation, anything like the extent to which he is required for ascertaining and agreeing the liability for direct taxation, he does come across these other taxes either as a private citizen or as part of his professional work.

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and accordingly this paper has been prepared to give some indication of the nature of such taxes and the problems which may arise.

5. In excluding from the scope of this paper taxation on income, there is eliminated excess profits levy, profits tax, sur-tax and income-tax (with the possible exception of the taxation under Schedule A of owner occupiers) and it does not deal with the special contribution.



Mr P. F. Carpenter, F.C.A.

Local Taxation

6. The estimated amount of the net non-grant-aided expenditure by local authorities for the year 1951-52 was £351,527,000. This expenditure is met by the levying of local taxation known as 'rates' under a system which has existed since the days of Queen Elizabeth I. The functions of local authorities have varied from time to time and in recent years one has seen the passing of many of the health services and poor-relief to national bodies and of trading services such as electricity and gas to the nationalized undertakings.

7. There are, broadly speaking, two forms of local government in England and Wales, namely, the one-tier system or county borough, and the two-tier system, where the services are provided partly by the county councils and partly by the non-county boroughs, urban district councils and rural district councils. The county borough, or all-purposes authority, levies its rates to meet expenditure which is almost wholly under its own control, but where the two-tier system exists, the non-county boroughs, urban district councils and rural district councils collect the rates, but a substantial part of the sums collected is then paid over to the county councils to meet the expenditure incurred by them. The principal items of expenditure falling on local rates at the present time are:

County councils

Education
Fire service

Police

Welfare services for aged infirm, and handicapped persons

Care of deprived children

Highways and bridges (county roads)

Non-county boroughs, urban district councils and rural district councils

Housing	Sewers
Collection and disposal of house refuse	Public lighting
Cemeteries	Highways and bridges (district roads)

The county boroughs carry out the whole of these functions but the allocation of services between the various types of authority varies in certain places. In particular in the London area the London County Council is the housing authority and the police come under the Commissioner for the Metropolitan Police.

8. It will be seen from the above lists, which are not exhaustive, that whilst some of the services are for purely local purposes they include services of a national character, and which are largely regulated by national policy.

Grants are made from the central Exchequer towards the costs of local services, the total assistance for 1951-52 being £474 million or about 57½ per cent of the net expenditure.

9. The system of rates by which the balance is raised had its origin in the Poor Relief Act, 1601 (the 'Statute of Elizabeth') under which a liability for a local tax was placed on every occupier of lands. As the widest possible interpretation is given the word 'lands', any occupation of property may be said to be rateable unless specifically exempt either at Common Law or by statute.

10. Generally speaking, the persons rated are rated as occupiers of land or houses and the basis of their contribution is fixed according to the annual value of the property occupied. Under the Rating and Valuation Acts there is to be determined the rent at which the hereditament might reasonably be expected to let from year to year, if the tenant undertook to pay all usual tenant's rates and taxes and if the landlord undertook to bear the cost of the repairs and insurance and the other expenses, if any, necessary to maintain the hereditament in a state to command that rent. From the rent so determined there are statutory deductions to arrive at a net figure or rateable value on which the rates are actually levied.

11. It will be seen that what has to be ascertained is the rent which 'might reasonably be expected' and it is quite clear from decided cases that this does not necessarily mean the rent actually paid, but is a notional rent to be estimated according to all relevant circumstances. When the general level of rates was only a few shillings in the £ this basis might have been satisfactory, but today with rates almost everywhere in excess of 20s in the £ the basis is obviously open to criticism. There has been no general revaluation of properties since before the war and there has recently been introduced a Bill to deal with the next revaluation having regard to the difficulties which have arisen largely by reason of the effects of the war and the Rent Restriction Acts on land generally.

12. It should be emphasized that the amount which

the private resident may pay in rates is only to a small degree governed by the services which may be received and in so far as rates are paid on private dwelling-houses no relief from other taxes is obtained. In the case, however, of trades or businesses, any sums paid as local rates are regarded as an allowable expense in computing the taxable profits of those businesses.

13. There are certain exemptions from rates which are dealt with briefly below.

A. Common Law exemptions

- (1) The Crown, i.e. Houses of Parliament, public offices, Royal Courts of Justice, official residences of Ministers of the Crown, barracks, prisons, police stations, post offices, etc. (Notwithstanding the principle of Crown exemption, contributions in lieu of rates are made by the Treasury.)
- (2) Land 'struck with sterility', e.g. parks and open spaces perpetually dedicated to the public use.

B. Total statutory exemptions

- (1) Agricultural land and buildings.
- (2) Air-raid protection works.
- (3) Railway and canal hereditaments (British Transport Commission).
- (4) Churches and chapels.
- (5) Diplomatic occupations.
- (6) Electricity hereditaments.
- (7) Lighthouses.
- (8) Literary and scientific societies.
- (9) Militia storehouses.
- (10) Sunday and ragged schools.
- (11) Voluntary schools (see Section 9 (2) of the Education Act, 1944; this does not cover independent schools or schools provided by a local education authority, but only those schools maintained by a local education authority but established otherwise than by such authority).
- (12) Certain undertakings by virtue of Private Acts of Parliament.

C. Partial statutory exemptions

- (1) Burial grounds, acquired under certain Acts.
- (2) Freight transport hereditaments.
- (3) Industrial hereditaments.
- (4) Land covered with water.
- (5) Plant and machinery (liability exists on such classes of plant and machinery as are deemed by statute to be part of the hereditament, e.g. plant used for generation of power, heating, ventilating, etc.).
- (6) Canals and towing-paths.
- (7) Tithes.

14. It should be noted that there is no relief for charities as such and that exemption from income-tax does not necessarily bring with it exemption from rates. The relief given to literary and scientific societies under the Scientific Societies Act, 1843, is

strictly limited to those societies which wholly satisfy the requirements laid down in the Act.

15. Among the most important reliefs are the de-rating provisions of the Local Government Act, 1929, which gave complete statutory relief to agricultural land and buildings and relief on three-fourths of the annual value to industrial properties.

16. Although the accountant is usually regarded as not competent to express an opinion as to the annual value of any property, there are certain undertakings, usually of a monopolistic character, where the valuation is made on a profits basis. Prior to their nationalization, the railways and electricity undertakings were so dealt with, but now a statutory contribution in lieu of rates is made. There still remain, however, the gas and water undertakings and such properties as racecourses, licensed hotels, etc., which are so valued and the services of the accountant can be most valuable in preparing the necessary data for the valuation.

17. For many years the Inland Revenue have been responsible for the valuation of properties for Schedule A purposes and since 1948 they have also dealt with valuations for rating purposes. Formerly the local authorities acted as rating authorities and were responsible for the preparation of the valuation lists.

18. It is perhaps debatable whether income-tax under Schedule A assessed on the owner-occupier of any property is a tax on 'income'; what is clear is that the 'income' so assessed is purely notional.

19. Apart from rates the only other taxation not dealt with centrally are the local taxation licences, where in England and Wales (but not in Scotland) the county and county borough councils retain the proceeds of gun and game licences and dog licences. The net receipts for 1951-52 were:

	£
Gun licences	134,291
Game licences	121,835
Dog licences	1,027,968

Inland Revenue Duties

20. As will be seen from Schedule 1 (a), although the duties collected by the Commissioners of Inland Revenue are principally taxes on income, with which this paper does not deal, they include the death duties, stamp duties and some miscellaneous items. The death duties and the problems of valuation connected therewith have formed the subjects of many papers and they can only be referred to briefly here. On deaths occurring at the present time there is only one duty payable, namely, estate duty, although there are six other duties on the Statute Book. Estate duty accounted for £176,291,117 out of the total death duties of £182,066,643 collected in 1951-52.

21. One item included under death duties to which reference should perhaps be made is corporation duty, the net receipt from which in 1951-52 was £122,662. This duty was imposed by the Customs

and Inland Revenue Act, 1885, by way of compensation to the Revenue for the non-liability to death duties of certain property belonging to or vested in bodies corporate or unincorporate. The rate of duty at 5 per cent on the net annual value of income or profits has not apparently been varied despite the very great increases in the rates of estate duty. As any body carrying on a trade or business and charitable bodies are exempt, there is only a small class of bodies liable to this tax, of which the Institute is perhaps a typical example. It is difficult to see why this tax should be retained and in its Memorandum for the Royal Commission on the Taxation of Profits and Income, the Institute suggested its abolition.

Stamp Duties

22. The Stamp Act, 1891, is still the principal Act dealing with the obligation to have many legal and commercial documents stamped with a stamp denoting the payment of duty. In some cases the amount chargeable on documents of a particular class is a fixed amount and in other cases it is an *ad valorem* duty.

23. In order to prevent evasion of the duties the Revenue relies on two principal safeguards, namely (a) the inadmissibility in any legal proceedings (other than criminal) of any documents not duly stamped; and (b) the imposition of penalties on persons who fail to stamp certain kinds of documents and on persons responsible for registering documents, such as registrars of companies, who register documents not duly stamped.

24. The principal headings under which stamp duties were collected in 1951-52 were:

	£
Land and property other than stocks and shares	22,179,432
Stocks, shares, debentures, etc. ..	20,694,876
Companies' share capital duty ..	2,165,416
Cheques	6,391,778
Bills of exchange	1,462,032
Receipts etc.	4,554,938
Insurance policies	2,816,948
Other	1,276,540
Total	<u>£61,541,960</u>

25. In the case of those duties for which adhesive (postage) stamps may be used, particularly for receipts, the amount receivable by the Inland Revenue is transferred from the Post Office on the basis of an estimate of the stamps used for revenue as distinct from postal purposes.

26. It should be noted that the liability for stamp duty only arises when a writing or document is brought into being. In some cases there is a legal requirement that a transaction must be evidenced by a document but in many cases there is no such obligation. Thus the 'traders' credit' system of

making payments under which the payer instructs his bank to pay sums direct to the payees' banks, obviates the drawing of cheques and so duty is not payable. Similarly with cash sales, if no receipt is asked for or given no question of stamping arises, but the payer may request a receipt and if the amount paid is £2 or over is entitled to a stamped receipt and penalties are prescribed for failure to comply with such a request. The Institute's *Members' Handbook* sets out, on page 138, advice obtained from solicitors with regard to the issue of receipts for payments made by cheque.

27. Charities enjoy a virtual exemption from stamping receipts, as the Commissioners do not take action when unstamped receipts are given. Charities were given some relief from stamp duties under the Finance Act, 1947, so that on transfers to them of stocks and shares the rate of *ad valorem* duty remains at the lower rates in force prior to August 1st, 1947.

28. In the case of transactions between a holding company and its wholly-owned subsidiaries, consideration should be given as to whether some document is essential; if for any reason it is, then it must be duly stamped, but cases do arise where there is no necessity for any document, and no stamp duty is accordingly payable. The reliefs given under Section 42, Finance Act, 1930, as amended by Section 50, Finance Act, 1938, should also be borne in mind.

29. A saving of duty may be made in the case of voluntary settlements or 'seven-year deeds' by providing for the payment of a weekly or monthly sum rather than an annual sum as the *ad valorem* duty is calculated by reference to the actual sum set out in the deed.

30. There are a number of statutory exemptions from stamp duties and in certain circumstances a fixed nominal duty may be paid instead of an *ad valorem* duty.

31. The Inland Revenue department also collects substantial sums for various fee and patent stamps which, however, are not Inland Revenue duties and are accounted for to the departments concerned. The net receipts from this source for 1951-52 were:

	£
Patents, designs and trade-marks ..	852,960
Fee stamps, including bankruptcy, companies registration and winding- up, land registry, judicature, etc. ..	2,432,190
	£3,285,150

Land Tax

32. This is one of the oldest taxes, dating from 1692, and is now in process of compulsory redemption over a period of years. It is payable annually on certain lands where the charge has not previously been redeemed and the property exonerated. On property changing hands it must be redeemed and may be redeemed voluntarily. The tax on property owned by corporate or unincorporate bodies must be redeemed not later than January 1st, 1954. The

yield of the tax in 1951-52 was £426,063 and £671,200 was received on voluntary and compulsory redemptions which are at the rate of twenty-five years' purchase of the annual land tax redeemed.

Mineral Rights Duty

33. This duty, which yielded £136,275 in 1951-52 was imposed by the Finance (1909-10) Act, 1910, and is levied at 1s in the £ on the rental value of all rights to work minerals and on mineral wayleaves. It is not charged on common clay, common brick-clay, chalk, limestone and gravel.

Customs and Excise Duties

34. The taxes administered and collected by the Commissioners of Her Majesty's Customs and Excise include some of the oldest surviving forms of taxes in our history. The customs duties which are levied on certain goods imported into this country had their origin certainly as far back as Richard I, who imposed a tax on imports of wine. The excise duties are levied on certain goods of home manufacture and have now been extended to cover purchase tax, entertainments duty, betting tax, etc. In Schedule 1 (*b*) there is set out a summary of the net receipts for 1951-52, showing the principal headings under which the duties are levied.

35. The administration of these duties is highly complex and in 1952, the Customs and Excise Act, an Act consolidating the whole of the law relating to the customs and excise duties was passed. It contains 321 clauses and 12 Schedules and repeals in whole or in part some 200 Acts of Parliament passed in the last 150 years. The Act did not alter the substance of the laws except in so far as it brought them into conformity with the requirements.

36. It is interesting to note that in the administration of the growth of a frontier company in a frontier country.

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consumption in the United Kingdom is well known, but nevertheless the present high rates of duty cause considerable difficulty in the financing of duty-paid stocks.

39. A committee was set up under Sir Maurice Hutton in July 1952, to examine the position of traders holding duty-paid stocks and its report published in March 1953 (Cmd. 8784), is most interesting. It will be remembered that there was considerable agitation on the part of retailers holding duty-paid stocks, particularly stocks on which purchase tax had been paid, for some relief should the rates of duty be reduced. The committee recommended that compensation should not be paid to such traders at the expense of the Crown and that no additional tax or duty should be imposed on stocks when the rates of tax or duty were increased. It also recommended that large and frequent variations in the rate of purchase tax should be avoided.

40. Although this problem of the risk to the holder of tax-paid stocks was accentuated by purchase tax it has existed for many years as regards stocks of alcoholic liquors and tobacco. Fortunately perhaps, for the holders of stocks, the trend of changes has generally been in an upwards direction and with one exception no attempt has been made to levy any additional tax on stocks. The exception was in 1948 when the second of the two post-war increases in the customs duty on tobacco was accompanied by an equivalent excise duty on stocks of duty-paid tobacco in the hands of manufacturers (but not of retailers) and yielded some £3 million.

Purchase tax has given rise to a number of problems, particularly with regard to the charge when goods are sold to a registered person (generally a wholesaler) and the tax is appropriated or applied to the goods. A registered person is entitled to a resale tax-free certificate which tax is not payable on the goods when sold to a retailer.

41. The collection of motor vehicle duties is entrusted by the Ministry of Transport to the county and county borough councils who account for the tax collected to the Exchequer. Until the close of the financial year 1936-37 the motor licence duties were paid into a road fund, but since that time the duties have no longer been earmarked for expenditure on roads, the central government's contribution towards the cost of maintenance, improvements and construction of roads and highways being met out of moneys provided by Parliament.

against losses likely to arise on a change in the rate of tax.

43. Included in the customs and excise duties are a number of licence duties, many of which are imposed not so much for the purpose of obtaining revenue, but to enable some control to be exercised on manufacturers and dealers in dutiable goods. In the case of retailers of alcoholic liquor the excise licence is based on the net annual value of the premises occupied, but on clubs the duty is charged at the rate of 3d in the £ on the purchases of intoxicating liquor during the preceding calendar year. The secretary of every registered club has to render a statement during the month of January.

44. In the case of licensed premises - hotels and public houses - when a new on-licence is granted, it is necessary for the justices to ascertain the difference between the value of the premises when licensed and their value unlicensed and to require the licensee to pay the difference as 'monopoly value'. In a number of cases such licences are granted for a term in order to ascertain what trade is capable of being done, before an annual licence, i.e. a permanent licence, is granted. Accountants are from time to time called upon to give evidence as to the figures on which monopoly values should be calculated. The Customs and Excise also collect the compensation levy under the Licensing Acts and accounts for such sums to the Compensation Authorities which were set up under the Licensing Act, 1904, to administer the fund to be applied to the extinction of old and redundant licences.

45. It is of some interest to note that the staff employed by the Customs and Excise at March 31st, 1952, was 14,803, and the cost of administration 0.66 per cent of the net revenue collected or about 1½d for every £ collected, whereas in the Inland Revenue department the staff numbered 53,260 and the cost of collection was equal to 1.07 per cent of the gross annual revenue received or about 2.6d for every £ collected.

Motor Vehicle Duties

46. The collection of motor vehicle duties is entrusted by the Ministry of Transport to the county and county borough councils who account for the tax collected to the Exchequer. Until the close of the financial year 1936-37 the motor licence duties were paid into a road fund, but since that time the duties have no longer been earmarked for expenditure on roads, the central government's contribution towards the cost of maintenance, improvements and construction of roads and highways being met out of moneys provided by Parliament.

National Insurance Fund

47. In addition to the other forms of taxation, under the National Insurance Scheme contributions are payable by all employed and self-employed persons and also by certain non-employed persons.

The amount of such contributions to the National Insurance Fund for the year ended March 31st, 1952, amounted to £417,136,857, and in addition there was paid to the Industrial Injuries Fund £30,368,764. The payments from the National Insurance Fund consist of benefits for unemployment, sickness, maternity, widowhood, guardianship allowances, retirement pensions and death grants.

A contribution is also made from the fund to the National Health Service and from the Industrial Injuries Fund benefits are paid for injuries, disablements and death. Both funds receive grants from the Exchequer. On both funds the experience to date has been that the income has exceeded the outgoings, and substantial balances have accumulated, but it would seem that the present scale of contributions will not be sufficient to keep the National Insurance Fund actuarially sound, particularly as and when more persons qualify for retirement benefits.

Conclusion

48. In bringing this brief survey of certain aspects of our fiscal system to a close, it is perhaps pertinent to recall the fundamental principles of taxation as expressed in the following four 'classical' maxims of Adam Smith:

- (a) The subjects of every State ought to contribute to the support of the government, as nearly as possible, in proportion to their respective abilities: that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.
- (b) The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort by the terror of such aggravation some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.
- (c) Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at a time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the

consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty, too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

- (d) Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.'

49. Whilst on the whole most of our taxes do not offend against these principles there would seem to be certain rather doubtful cases and it may be that these will receive attention from some future Chancellor who is able to propose some remission of taxation.

CONTENTS	Page
INTRODUCTION	222
LOCAL TAXATION	222
INLAND REVENUE DUTIES	224
STAMP DUTIES	224
LAND TAX	225
MINERAL RIGHTS DUTY	225
CUSTOMS AND EXCISE DUTIES	225
MOTOR VEHICLE DUTIES	226
NATIONAL INSURANCE FUND	226
CONCLUSION	227
SCHEDULE 1 (a)	
Net receipts from taxes, 1951-52	227
SCHEDULE 1 (b)	
Customs and excise duties, 1951-52, net receipts	228
SCHEDULE 2	
The scope of purchase tax, January 1953	228
SCHEDULE 3	
BIBLIOGRAPHY	228

SCHEDULES

		Schedule 1 (a)	
NET RECEIPTS FROM TAXES, 1951-52			
(1) Inland Revenue Duties	£000	£000	
Income-tax		1,682,252	
Sur-tax		129,093	
Profits tax		323,120	
Excess profits tax		—5,882	
Excess profits duty and corporation profits tax		40	
		2,128,623	
Death duties	182,067		
Stamp duties	61,542		
Land tax	426		
Mineral rights duty	136		
Special contribution	2,701		
		246,872	
Total Inland Revenue duties		2,375,495	
(2) Customs and Excise Duties			
Customs	999,900		
Excise	753,204		
Total		1,753,104	
		4,128,599	
(3) Motor Vehicle Duties		65,000	
Total receipts from taxes		£4,193,599	
(4) Local Authorities			
Rates collected		£351,527	

Schedule 1 (b)
CUSTOMS AND EXCISE DUTIES, 1951-52 - NET RECEIPTS

	Total £000	Customs £000	Excise £000
Spirits	96,927	29,850	67,077
Beer	260,887	12,721	248,166
Wine	17,520	17,520	—
British wines	3,305	—	3,305
Total alcoholic liquors	378,639	60,091	318,548
Tea	187	187	—
Cocoa etc.	1,312	1,312	—
Coffee and Chicory	349	349	—
Sugar etc.	13,041	8,314	4,727
Dried fruits	361	361	—
Tobacco	613,473	613,471	2
Matches and mechanical lighters	12,730	4,195	8,535
Silk	6,237	6,237	—
Oil etc.	200,538	195,122	5,416
Entertainments	45,805	—	45,805
Clubs	800	—	800
Monopoly values	970	—	970
Licences - Liquor	4,240	—	4,240
Other	221	—	221
Playing cards	71	6	65
Hops	2	2	—
Key industry duties	2,549	2,549	—
Import Duties Act, 1932	92,807	92,807	—
Ottawa duties	11,248	11,248	—
Beef and Veal	3,016	3,016	—
Purchase tax	337,671	—	337,671
Betting	26,175	—	26,175
Miscellaneous	662	633	29
	<u>£1,753,104</u>	<u>£999,900</u>	<u>£753,204</u>

<i>Rate of Tax</i>	<i>Goods</i>
Chargeable at 33½ per cent on the excess of the wholesale value over the appropriate 'D'	domestic furniture.
Chargeable at 33½ per cent on the full wholesale value	most floor coverings; office furniture; domestic hardware and ironmongery, and wallpaper; sewing machines; cutlery; lighting fittings, bulbs and mantles; lawn mowers and rollers; clocks and watches not of precious metal; pianos; batteries and accumulators for wireless sets; toys and sports requisites; certain toilet requisites and preparations; drugs and medicines; stationery and office requisites; bicycles, motor cycles, and the chassis of goods vehicles.
Chargeable at 50 per cent on the excess of the wholesale value over the appropriate 'D'	cloth and plastic sheeting; domestic textile articles and bedding, other than pillows, bolsters and mattresses.
Chargeable at 66⅔ per cent on the full wholesale value	gas space-heating appliances, gas water-heating appliances and certain electric water-heating appliances; domestic refrigerators, washing machines and vacuum cleaners; radio and television sets; gramophone records and most musical instruments; smokers' requisites; cut glassware; trunks, bags, etc.; cameras and photographic goods; umbrellas; motor-cars.

Schedule 2
THE SCOPE OF PURCHASE TAX, JANUARY 1953

<i>Rate of Tax</i>	<i>Goods</i>
Free of tax	foodstuffs; fuel; books; domestic cooking appliances; sanitary ware, household brooms and brushes, a range of dusters and cleaning cloths, and various kitchen utensils and appliances; most vessels used in the preparation or serving of food and drink; pins, needles, thimbles, sewing thread and knitting wool; young children's clothing and footwear; school satchels; office machinery; toilet paper and tooth-brushes; certain essential or non-proprietary drugs and medicines; ambulances, invalid carriages and perambulators; most industrial and building materials and appliances; most articles (e.g. spirits and tobacco) subject to other indirect taxation.
Chargeable at 25 per cent on the excess of the wholesale value over the appropriate 'D'	clothing and footwear (other than fur goods and exempt goods), handkerchiefs and some headgear; pillows, bolsters and mattresses.
Chargeable at 25 per cent on the full wholesale value	haberdashery and most headgear.

Chargeable at 100 per cent on the excess of the wholesale value over the appropriate 'D'	fur garments.
Chargeable at 100 per cent on the full wholesale value	fur skins; certain electric space-heating and electric water-heating appliances; clocks and watches of precious metal; most pictures and prints, and the more elaborate greetings cards; jewellery and goldsmiths' and silver-smiths' wares; fancy goods, ornaments and vases; perfumery, cosmetics, and certain toilet requisites and preparations.

Schedule 3

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WEEKLY NOTES

Cost Accountants' Examinations

The results of the June 1953 examinations of The Institute of Cost and Works Accountants have now been announced.

A total of 1,081 candidates sat for the whole or part of the Final examination at home centres. Of this number, 178 completed the Final, 41 passed Part A, 202 passed Part B, and 660 candidates failed.

The First Place in the Final, carrying with it the 'S. Laurence Gill Prize', was awarded to Mr James Fouldes, of Oakes, Turner & Co Ltd, Sheffield. The 'Leverhulme Prize' for Costing was awarded to Mr John Burrell Charnock, of Thomson & Charnock Ltd, Liverpool; Mr Charnock gained the first place in the Intermediate examination of June 1951. The 'Donald L. Moran Prize' for Management - Factory and Distribution, was awarded to Mr James Leaver, of Mullard, Blackburn Works Ltd of Blackburn.

In the Intermediate examination at the home centres there were 1,947 candidates, of whom 117 passed the whole of the examination, 355 passed Part I, and 369 passed Part II. The remaining 1,106 candidates failed.

The names of successful candidates who completed the Final examination at the home centres, together with a summary of the home results, appear on another page.

Loans from Counterpart Funds

The President of the Board of Trade has announced the composition of a committee to advise him on the administration of the industrial portion of a £1 million counterpart fund which has been accumulated under the counterpart arrangements arising out of United States economic aid.

The chairman of the committee is Sir John H. Woods, G.C.B., M.V.O., and the other members are Mr S. J. Pears, F.C.A., a partner in the firm of Cooper Brothers & Co., Chartered Accountants, and a member of the Council of the Institute; Mr David Colville, of Rothschilds; Col. E. R. Mayer, T.D., from the National Union of Manufacturers; Sir Andrew Naesmith, C.B.E., J.P.; Lord Piercy, C.B.E.; Mr W. W. S. Robertson, O.B.E., of the National Production Advisory Council; and Dr Harold Whitehead, from the British Institute of Management.

Out of the £1 million made available, £300,000 has been allocated to agriculture, the balance of £700,000 being reserved for industrial purposes. The committee has already made recommendations about the type of project which it considers should be eligible for a loan and also on terms and conditions.

It seems that small and medium-sized firms will

limits are intended to be a start for a working basis rather than inflexible terms of reference. The fund is a revolving one so there should be scope for further loans as existing ones are paid back.

An explanatory leaflet setting out the form in which applications should be made can be obtained from the Board of Trade.

Best Exports this Year

July has had the distinction of providing the best export figures for this year so far. At £243 million they were £30 million higher than the level achieved in June and about £20 million above those for July, 1952. Some of this good result is due to the fact that July is the first month since the earlier part of the year which is not affected by one or another of the statutory holidays. On a working day basis there is, however, a slight improvement on recent months, for the July figure of £8.9 million compared with £8.8 million each for June and for May. There is some way to go, however, before the rate of export on a working day basis is restored to the level which obtained in the earlier part of this year.

Imports were almost unchanged on the month at £293 million. But this steady figure conceals a useful drop on a working day basis, for in July the average working day produced £10.8 million worth of imports compared with £12.1 million in June. The result of this slight gain of exports over imports was to reduce the adverse balance on visible account to £50.1 million compared with £79.8 million in the month before.

So far as exports to North America were concerned, the very resilient performance in June was not quite maintained. Total exports to that area were £30.1 million against £30.5 million but the July level remained above the second quarter's average.

Italian Steel Tariffs

When the High Authority, which is the executive body for the countries signatory to the Schuman treaty, made its first moves to reduce tariffs among participating countries, it made a special dispensation to Italy. It was argued at the time that the transport problems and high costs of the Italian industry made it imperative for Italian steel firms to have a longer period of adjustment than those in other countries. The Italian steel tariff was therefore raised to 23 per cent (for non-special steels that is) which was the level allowable under the Annecy Convention. This concession was to be reviewed early this month when it was thought that the price relationships

will continue to operate for steel from other countries. This may be only a very small straw in the wind but it suggests that the general movement of prices downward; a movement which is now general inside and outside the Community, is gradually putting the Higher Authority in a position where it can more easily exert pressure on prices. Little, indeed, is likely to be heard about the High Authority's powers to fix maximum prices. For better or for worse, the Schuman Plan has started life on a falling market.

New Shipping Freight Index

It was announced some time ago that a new freight index calculated on a post-war base year was in course of preparation by the Chamber of Shipping. The new index was published for the first time last week. Along with the freight index on a new basis there has now been made available an index of time charter rates. Both the new series are based on 1952.

The freight index has been revised to take account of the change in the pattern of trade since the war and as one would expect one of the principal alterations has been the reduced weight given to the coal trade. Along with coal there has been a smaller weight allocated to grain and fertilizers. Higher weights have gone to timber, sugar and ore.

So far as movements of the indices are concerned there was a slight hardening of the freight rate index over July. It advanced two points from 73.8 to 75.8 but this small upward turn does not even recover the ground lost over June. One has to go back to August last year to find a lower level of freights than those which have been current in June and July of this year. The index of time charter rates fell on the month and has been declining steadily since April having now fallen below the year's previous 'low' in January. Seasonal factors and the end of hostilities in Korea are leaving the indices, temporarily at least, somewhat becalmed.

REVIEWS

We Too Can Prosper

by Graham Hutton

(George Allen & Unwin Ltd, London. (For the British Productivity Council.) 12s net)

It was clearly a matter of vital necessity that someone should bring together and express cogently and concisely the conclusions reached in the numerous reports on American industrial methods issued by the British Productivity Council (formerly the Anglo-American Council on Productivity). Few indeed could have performed this task more successfully than Mr Graham Hutton, the well-known authority on economic affairs.

The result of Mr Hutton's efforts (in which he was aided by a panel of experts) in epitomizing the lessons to be drawn from the reports - nearly seventy of which have been published already - is a volume which everyone in this country should not merely read, but should study most thoroughly; not only because the book provides such a clear analysis of the conditions upon which the possibility of increasing output depends, but more especially because it stresses the fact that of all factors contributing to higher productivity the most important are psychological or moral. Indeed the central thesis of this book is that 'we too can prosper' but only if we *will* the objective of higher productivity. The implication is, of course, that in the absence of the right attitude on the part of the nation, the introduction of new methods and the increased use of capital equipment, will be ineffective.

The problem, then, is one of leadership. If the nation wants to improve its standard of living (and this means much more than the purely material conditions of well-being - and in any case has political and moral implications reaching far beyond

the confines of the British Isles) then both sides of industry, employers and employees alike, must come to regard increased productivity as of paramount importance. In the absence of the will to increase productivity, this country will at the best be faced with a slow decline, both in material wealth and in influence, or at the worst may, together with a catastrophic lowering of material standards of life, relinquish its democratic way of life.

So convincingly is this view set forth that the book must be regarded as essential reading for everyone who has the slightest connection with industrial affairs.

RECENT PUBLICATIONS

QUESTIONS AND ANSWERS ON SECRETARIAL PRACTICE by G. K. Bucknall, A.C.I.S.(HONS.). 10th edition by R. C. Hetherington, F.C.I.S. ix + 254 pp. 9 x 5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

THE EARNINGS OF INDUSTRY, 1953 edition. 80 pp. 8½ x 5½. 4s net. Hollis & Carter, London.

GUIDE TO INCOME-TAX PRACTICE (Murray & Carter), 17th edition by Herbert Edwards, M.A.(LOND.), assisted by Alan M. Edwards, B.COM., F.C.A. lxxxviii + 962 pp. 8½ x 5½. 55s net. 56s 4d post free. Gee & Co (Publishers) Ltd, London.

PRINCIPLES OF BRITISH INSURANCE by Harold E. Raynes, F.I.A., F.C.I.I. vii + 189 pp. 8½ x 5½. 20s net. Sir Isaac Pitman & Sons Ltd, London.

BUSINESS FINANCE, by F. W. Paish, M.C., M.A.(CANTAB.). vii + 144 pp. 8½ x 5½. 12s 6d net. Sir Isaac Pitman & Sons Ltd, London.

INTERNAL AUDITING, by A. C. Smith, C.A. ix + 240 pp. 9 x 5½. 21s net. Sir Isaac Pitman & Sons Ltd, London.

SCOPE ANNUAL REVIEW, Coronation Year 1953, 94 pp. 9½ x 6. 5s net. Scope Books Ltd, London.

HOME AND FOREIGN INVESTMENT 1870-1913, by A. K. Cairncross, Professor of Applied Economics in the University of Glasgow. xvi + 251 pp. 9½ x 6½. 30s net. Cambridge University Press, London.

TRUSTS AND FOUNDATIONS, compiled by Guy W. Keeling, B.A., edited by Thomas Landau, A.L.A. xi + 194 pp. 10 x 7½. £2 2s net. Bowes & Bowes, Cambridge.

FINANCE AND COMMERCE

Stock-markets maintain a remarkably good tone in view of restricted trading due to the holiday season. British funds are moving forward, with special demand for the very long-dated nationalization stocks. Keen interest is also directed to take-over shares, while a particular feature has been a marking up of Canadian securities on a Treasury statement that free switching into other Canadian dollar, as well as United States, stocks can now be undertaken.

Debenture Redemption

Patons & Baldwins Ltd, the wool manufacturers whose accounts we reprint this week, has an issue of 4 per cent first mortgage debenture stock, 1960-65, carrying an obligation to set aside for redemption purposes in addition to interest on outstanding stock, a sum equal to the difference between that interest and £165,000. This money is passed to the trustees for the stock either in cash or in the form of the stock bought in open market.

Market conditions proved favourable, the stock required was bought below par, and the company made a profit of £3,445 on £48,448 nominal of stock redeemed by purchase. The profit goes to profit and loss account and the board have considered it prudent to transfer from profits an amount equal to the nominal value of the stock redeemed. This sum appears as a capital reserve in the balance sheet.

Mr Philip A. Wright, the chairman, deals in his speech with the fluctuations in wool prices which 'represent latent risks which will always be liable to cause fluctuations in earnings and against which prudence dictates that some balance sheet reserves be made'.

An appropriation of £1 million is being made to contingencies, of which £606,434 is looked on as coming from non-recurring sources and £393,566 from trading surplus. Fifteen years ago, when the company was also making provision against an exceptional fall in wool values, we were suggesting that the amounts involved should be published. Which shows how far the published accounts of this - and other public companies - have improved.

Taxing Increased Costs

The accounts of Concrete Ltd for the year to March 31st last, include an exception credit of £63,098 for 'adjustment in respect of claims for increased costs'. The directors explain that their previous policy has been to defer taking credit for claims for increased costs on contracts until paid. The Inland Revenue, however, has refused to accept this deferment and the board has decided to bring the published accounts into line with those for tax requirements. And the ordinary shareholders have their dividend raised from 7 to 10 per cent.

These accounts accompany the directors' thirty-fourth annual report but are the second issue since

the company came before the investing public through a quotation for its preference shares at the end of 1951. The comparative figures show that the conversion to a public company and the obtaining of the Stock Exchange quotation cost £5,925.

The company's principal activity is the design and manufacture of 'Bison' pre-cast hollow beams which are fixed side by side to form a suspended reinforced concrete roof or floor. In the making of these hollow beams, an inflatable core is used which is the invention of the founders of the business, the present chairman and deputy chairman.

Improved Accounts

We note with appreciation the new form in which the accounts of International Bitumen Emulsions Ltd have been issued this year. It is mainly a matter of taking more space, altering the shape, and giving what the printers call 'white' between the balance sheet groups so that each group stands clear of its neighbours instead of being part of a crowd. But this improved layout and better printing means a great deal when reading sense into the figures.

One item in particular may be noted. Tax equalization reserve (wear and tear) this time has been grouped with future taxation which appears under its separate group heading. Previously, it was in revenue reserves, and the transfers to the reserve were shown as appropriations of profit. This year, the amount to the reserve comes under the 'estimated taxation on profits of the year' group in the profit and loss account.

The directors express their opinion that the amounts so set aside are more realistically reserves to meet future liabilities to taxation and have accordingly made the change in accounting procedure.

Sales Figures

The sales of the group have further expanded by £216,000 to a new record figure of £8,387,000, states Mr F. G. C. Fison in his statement as chairman of Burton, Son & Sanders Ltd. This, he adds, is an indication of the healthy and vigorous condition of the business. More and more companies are giving sales and turnover figures - and they still survive, thus confounding the prophets who used to foretell complete business collapse if any such disclosure should be made to competitors.

We should like to see these prime figures in the context of profits and their disposal. In the books of the business, the sales figures are part of the revenue accounts and, we feel, should be brought into relationship with the published profits in the published accounts. Examples have been reprinted in this column. What we have in mind can be seen in the reprint of the accounts of Joshua Tetley & Son, the Leeds brewers, in our issue of January 26th last year.

The Joshua Tetley 'trading account' traces the

whole position through from 'sales of cask and bottled ale' to 'net profit after taxation' and the appropriation of that profit. In the process the account shows excise duty, cost of materials and production, other income, selling, administration and property expenses and interest charges. Through this account the shareholder can see right into the business.

Money Market

Applications for Treasury bills on August 14th totalled only £347,885,000, or nearly £22 million less than in the previous week. The market again bid £99 8s 2d and obtained 71 per cent of requirements. The average discount rate was £2 7s 4·37d per cent. Another £270 million will again be offered this week.

PATONS & BALDWIN'S, LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet, May 2nd, 1953

	1953			1952		
	£	£	£	£	£	£
Fixed Assets						
Land, Reservoirs and Buildings	1,286,660	644,189	642,471	1,261,905	641,790	620,115
Motive Plant, Plant and Machinery	2,103,174	1,344,484	758,690	2,026,766	1,351,171	675,595
Darlington Factory						
Land, Reservoirs and Buildings	3,921,207	361,660	3,559,547	5,599,111	392,252	5,206,859
Motive Plant, Plant and Machinery	4,317,092	857,497	3,459,595	2,497,833	467,958	2,029,875
	<u>£11,628,133</u>	<u>£3,207,830</u>	<u>8,420,303</u>	<u>£11,385,615</u>	<u>£2,853,171</u>	<u>8,532,444</u>
Current Assets						
Stock-in-trade, as certified by officials of the Company		12,303,625			9,910,989	
Sundry Debtors and Bills Receivable	2,430,588			2,256,308		
Less General Reserve	<u>17,000</u>			<u>17,000</u>		
		2,413,588			2,239,308	
Bank Balances and Cash		702,105			547,464	
Trade Investment at Cost					<u>187,916</u>	
			15,419,318			12,885,677
			<u>23,839,621</u>			<u>21,418,121</u>
Deduct: Current Liabilities						
Bank Overdrafts and Acceptance Credits		1,821,838			845,123	
Sundry Creditors		635,529			586,063	
Current Taxation, British and Dominion		972,781			1,808,467	
Bonus to Employees		110,359				
Proposed Ordinary Final Dividend and Bonus		<u>232,217</u>			<u>83,123</u>	
			3,772,724			3,322,776
			<u>20,066,897</u>			<u>18,095,345</u>
Deduct: Interest of outside stockholders in capital and reserves of a Subsidiary			1,083,309			1,015,286
			<u>18,983,588</u>			
Future Taxation: Reserve for Income Tax 1954-55			715,239			
			<u>18,268,349</u>			<u>17,080,059</u>
Deduct: 4% First Mortgage Debenture Stock 1960/75			2,951,552			3,000,000
Net assets attributable to Patons & Baldwin's, Limited			<u>£15,316,797</u>			<u>£14,080,059</u>
Represented by:						
Share Capital of Patons & Baldwin's, Limited						
6½% Cumulative Preference Stock		Authorized	Issued		Authorized	Issued
4% Cumulative Redeemable Preference Stock		1,359,447	1,359,447		1,359,447	1,359,447
Ordinary Stock		3,000,000	3,000,000		3,000,000	3,000,000
Ordinary Shares of £1 each		2,638,829	2,638,829		2,638,829	2,638,829
		<u>1,724</u>			<u>1,724</u>	
		<u>£7,000,000</u>	6,998,276		<u>£7,000,000</u>	6,998,276
Reserves						
Capital - Premium on Shares	2,482,876			2,482,876		
On redemption of Debentures	<u>48,448</u>					
	2,531,324			2,482,876		
Deduct: Formation and issue expenses and brokerage on shares of a Subsidiary	<u>31,873</u>			<u>39,623</u>		
			2,499,451			2,443,253
Revenue (including proposed appropriation)						
General	2,106,242			2,000,000		
Contingencies	3,100,000			2,100,000		
Pensions	110,000			110,000		
Profit and Loss Account	<u>502,828</u>			<u>428,530</u>		
		5,819,070			4,638,530	
			8,318,521			7,081,783
For Notes see page 8.* For Auditors' Report see page 9.*						
Signed on behalf of the Board						
PHILIP A. WRIGHT, } Directors.						
J. S. BULLMORE, }						
			<u>£15,316,797</u>			<u>£14,080,059</u>

* Not reproduced. - Editor.

PATONS & BALDWIN, LIMITED AND SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account for the year ended May 2nd, 1953

Section I	1953		1952		1953	1952
	£	£	£	£	£	£
Deficit on trading after writing down stocks to market value May 3rd, 1952						
Depreciation		513,305	293,492		3,185,940	
Directors' Emoluments			372,287		129,729	
For services as Directors as fixed by the Company's Articles of Association	4,658			3,445		
For managerial services including pensions scheme contributions	93,167		4,600		184,457	
		97,825	94,594		69,472	
Pensions for managerial services to a retired Director and to Directors' widows		3,750	99,194		133,174	
Debiture Interest (Gross)		119,165	3,750			253,929
Bonus to Employees		110,359	120,000			634,794
Balance carried down		2,474,710	—			
		<u>£3,319,114</u>	<u>£888,723</u>		<u>£3,319,114</u>	<u>£888,723</u>
Section II						
Balance brought down	£	£	£	£	£	£
Taxation based on the Income of the year:						
Dominion		224,394	—		2,474,710	
British					476,705	
Income Tax		821,053	—			72,446
Profit Tax		17,283	97,597			179,950
Profits Tax on distributions to stockholders shown in Section III			21,777			252,376
Interest of outside stockholders in profits of a Subsidiary			—			482,660
Balance carried down		£2,951,415	<u>£760,168</u>		<u>£2,951,415</u>	<u>£760,168</u>
Section III						
Balance brought down	£	£	£	£	£	£
Transfer to Reserve in accounts of a Subsidiary		106,242	482,660		1,628,616	
Transfer to Capital Reserve on redemption of Debentures		48,448	—		428,530	
Dividends paid and proposed, less Income-tax:						
30th, 1953		47,496	46,391			
Dividend on 4% Cumulative Preference Stock year to April 30th, 1953		64,500	63,000			
Interim Dividend of 4% on Ordinary Stock (already paid)		55,415	55,416			
Proposed Final Dividend of 11% on Ordinary Stock		159,649	(6%) 83,123			
Proposed Bonus of 5% on Ordinary Stock		72,568	—			
Proposed Transfer to Contingencies Reserve		287,632	138,539			
From Surplus on sale of Trade Investment		139,729	—			
From British and Dominion Taxation provisions not required		476,705	—			
From Surplus		393,566	—			
Balance carried forward to next year		<u>£1,000,000</u>	—			
Patons & Baldwin Limited		432,824	423,808			
Subsidiary Companies		20,004	4,722			
		<u>£2,057,146</u>	<u>£1,159,120</u>		<u>£2,057,146</u>	<u>£1,159,120</u>

Signed on behalf of the Board
 PHILIP A. WRIGHT,
 J. S. BULLIMORE, } Directors

For Notes see page 8.*
 For Auditors' report see page 9.*

* Not reproduced. — Editor.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Profits Tax: Director-controlled Companies: Repaid Loans

SIR, - It will be remembered that Section 36 (3), Finance Act, 1947, was introduced with the intention of enabling the taxpayer to recoup profits tax paid on loans to members of director-controlled companies in the periods in which the loans are repaid. Due to a flaw in that subsection, it became necessary to bring in Section 70, Finance Act, 1948, to ensure that the intention was, in fact, carried out.

It appears that another section will be required in the Finance Act, 1954, if the obvious intention of paragraph 2, Schedule Seven, Finance Act, 1952, is to be carried out in relation to loans made in periods ending before January 1st, 1952, which are repaid in periods commencing on or after January 1st, 1952.

The intention is that paragraph 2 (2) should apply the fraction $\frac{1}{2}$ to 'the tax attributable to the loan' which is then grossed up at 20 per cent and deducted from the net relevant distributions in the year of repayment. The fraction $\frac{1}{2}$ is used to allow for the income-tax relief given for the profits tax paid on the original loan.

The term 'tax attributable to the loan' is defined immediately after the proviso (c) in paragraph 2, but *only* for the purpose of the provisos which deal with cases where distribution charges arise or could arise but for the loan repayment. That definition has no application to the vast majority of cases where no question of a distribution charge arises.

Further, that term does not appear in Section 36 (3), Finance Act, 1947; Section 70, Finance Act, 1948, or paragraph 2, Schedule Seven, Finance Act, 1952 (except in relation to distribution charge cases).

It is therefore submitted that the fraction of $\frac{1}{2}$ should not be applied in the normal case (i.e. where no question of a distribution charge arises).

The result will be that a loan in 1951 of £1,000 (ignoring abatement and franked investment income) would have attracted profits tax at 40 per cent, i.e. £400. Taking income-tax at 10s, the net tax suffered is £200.

On repaying the loan in 1952 one should gross £400 at 20 per cent to give £2,000 as the reduction in the net relevant distributions. Additional non-distribution relief will be given at 20 per cent, i.e. £400.

Yours faithfully,
H. HUDSON, A.C.A., A.T.I.I.

Belmont, Surrey.

[The drafting of paragraph 2 of the Seventh Schedule to the Finance Act, 1952, is certainly not happy and Mr Hudson puts forward an arguable case, but it is unlikely to succeed. It is true that the phrase 'tax

originally ascribable to the loan' occurs in so many words in paragraph 1 only in relation to cases where a distribution charge is reduced or cancelled. However, Section 36 (3) of the Finance Act, 1947, does speak of an increase in tax as a result of treating the loan as a distribution, which is another way of saying 'tax originally ascribable to the loan'. The first part of paragraph 2 (1) quite obviously imports Section 36 (3), and when paragraph 2 (2) modifies it, there is no strong argument for saying that the words 'tax originally ascribable to the loan' cannot mean the 'increase' referred to in Section 36 (3). If they do extend to that increase, then it is true that the draftsman need not have inserted a specific interpretation of the phrase in the proviso to paragraph 2 (1), but he would probably be regarded as having put that in out of excessive caution. - Editor.]

Accounting for Inflation

SIR, - Returning from a visit to the North American continent, I find a lot of correspondence in your journal on the above subject between July 4th and August 1st.

As Mr Hartley correctly says (August 1st issue):

'We must all surely accept Mr Briscoe's [statement] that "income is what is left over after wealth (or capital) is maintained intact".'

If old-established firms continue to value their stocks at 'cost or market price whichever is lower' in a depreciated or devalued currency, it is impossible for them to maintain their wealth (or capital) intact.

Only LIFO or the base stock or similar methods can do this, and that has long since been recognized by all civilized nations outside the sterling area.

Regarding Mr Nielsen's remarks (July 4th issue):

'The persons concerned with accounting should devote their energies to persuading the government that a stable value for the £ must be made etc., etc. . . .'

His suggestion is just as reasonable as it would be to persuade the Government to regulate the rainfall in any particular district. I am sure that the Government would be delighted if they were able to stabilize sterling (they have certainly made several unsuccessful attempts), but by now they should have discovered the impossibility of so doing. The intrinsic value (or worth) of the paper £ must always be governed by supply and demand. Again 'the general level of prices must remain constant'. This never has happened and never can.

There are far too many theorists airing their opinions and not enough businessmen stating their experiences of this subject; nor is it generally realized that the people who wrote the text-books that the theorists study were only theorists themselves and never personally had any practical experience in money, business or devalued paper £s.

Unless an old-established firm has valued its stock today on the base stock, LIFO or some similar system, they will already have lost at least half of the amount of their capital which they have normally carried in stock during the last thirty years trading.

Nobody can blame the Crown for contending that all trading stocks should be valued at 'cost or market price, whichever was the lower' (on the last day of the firm's accounting period) so long as The Institute of Chartered Accountants uphold their Recommendation XV. This formula was indisputably acceptable up to 1914, or before the depreciation of the £ became noticeable, but with a paper £ (twice devalued by Parliament), this formula should be amended to:

'Stocks to be taken at cost or market price, whichever is lower during the period of these accounts, including the opening valuation.'

This amendment, whilst costing the Treasury nothing in loss of tax today (as the £ has remained comparatively stable since the present Government was returned to power), would nevertheless protect industry against future losses on stocks.

Yours truly,

London, EC3.

J. M. JESSIMAN.

SIR, - Mr Nielsen's letter published in your issue of August 1st, calls for a reply if only to dispose of some of the weaknesses in his proposals. He has obviously left out of account so many factors which cannot be ignored that no Government is likely to inflict such a damaging policy on the long-suffering community.

To say that the Government could stabilize the price level in a country which is dependent on imports without interfering with business directly is obviously wishful thinking and does less than justice to the sincerity of successive Chancellors of the Exchequer.

To impose taxes and restrict credit whenever prices rise would surely be interference with business on the grand scale and to suppose that control of purchasing power from week to week or even month to month would not lead to chaos in the commercial sphere is to take no account of the risks attendant on ordering goods, which have to be manufactured and holding stocks of commodities for sale.

Who is going to take the risk of buying hides, wool, cotton, leather or other basic materials and being unable to realize them when money is needed or to pay wages to operatives whose production may be a glut on the market as soon as it is finished? How could people confidently place orders for ships, machinery, buildings, bridges, transport vehicles

penalize many enterprising people with limited resources?

Nothing is said of the time it takes to ascertain the general level of prices or to assess and collect taxes, though Mr Nielsen is presumably familiar with these obstacles.

It does not seem likely that the problem can be solved by a policy of restriction.

Yours faithfully,

R. H. QUINEY.

Leicester.

Schedule E: Expenses

SIR, - Your correspondent (August 15th issue) has outlined a case that is as near the borderline as it would be possible to get without crossing it. The expense of employing a chauffeuse is incurred in order to equip the car 'to perform' the duties of the employment whereas the cost of the petrol to put the car in motion is an expense incurred 'in performing' the said duties. The first expense is disallowable and the second allowable.

Some consolation for the disappointment that must be experienced in this case may perhaps be derived from the words of Mr Justice Rowlatt, who, when discussing the application of Rule (9) in *Ricketts v. Colquhoun*, said that the rule often created a position that 'really is unreasonable' (3 A.T.C., page 480).

Yours faithfully,

London, EC2.

E. HARMAN.

SIR, - With reference to the letter from 'Arturo', in your issue of August 15th, there seems to be some misunderstanding on the part of the Inspector of Taxes as to the nature of the 'necessary expenses' which the sales representative has to incur.

It is scarcely true to say that the traveller has to employ a chauffeuse or chauffeur. No traveller is obliged to drive himself nor does his employer insist that he shall do so. What he has, *ex necessitate*, to do is to make his round of his customers and if he chooses to drive himself that is his own personal choice; but it is not in the least evident that the terms of his employment are specifically that he shall visit his customers in a car driven by himself.

It is quite reasonable to expect that a sales manager who is earning over £3,000 a year would normally expect to have a car and chauffeur to take him on his rounds. The fact that he has hitherto chosen to be his own driver was his voluntary choice and not *ex necessitate*. The change-over to a chauffeuse-driven car is a change from abnormal conditions to normal conditions. The fact that his doctor has precluded him from enjoying the sport of driving himself rather than submitting to be driven by a hired driver

taxable on her £9-a-week salary, the sales representative will not only get no allowance from his commission in respect of this but will pay tax again on it as his wife's income.

The whole case turns on the question whether his employer makes it a condition that he should drive himself or whether he is only under the obligation to do his round by employing motor transport. He is not hired as a car-driver, but as a sales representative.

Yours faithfully,

London, WCI.

R. W. OSLER.

'Inhuman Efficiency'

SIR, — It is with some amusement that I noted the bewilderment of the writer of the article on 'Inhuman Efficiency' in a recent issue. I cannot help feeling though that he completely missed the point of all the gadgets and machinery he saw at Olympia. I go with him as far as to admit that there is something inhuman and uncanny about a machine which can accomplish a process which may take a man hours, in a matter of seconds.

On the other hand I disagree with his view that all this machinery will get his mythical Miss X. into a dither and curtail his own inclination to procrastination.

On the contrary — modern business efficiency methods are designed to offset man's inability to concentrate and his reluctance to deal with matters by dealing with them for him, thus enabling him to devote more time to really important matters such as bowling aggregates and batting averages.

In almost every case modern business methods have been designed to make life easier and often their inventors were inspired by their desire to eliminate some particularly unpleasant aspect of their own business life.

All the same I too was bewildered by what I saw at Olympia, because I am now wondering how long it will be before people in offices will be rendered obsolete.

Yours faithfully,

ANTHONY FIRTH.

[We rather feel that Mr Firth missed the point of our article, and has perhaps taken us a little too seriously: Miss X. has in fact been continuously helped through the years by more and better aids to efficiency . . . and desk diaries are indeed most valuable things. But however much you mechanize there must remain *somebody* in the office, and the fewer the 'somebodies' mechanization leaves the greater will be their responsibility: they will really have to be efficient themselves. — Editor.]

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship at the Council meeting held on August 5th, 1953, who completed their Fellowship before August 18th, 1953.

Associates elected Fellows

Corney, Charles Ewart; 1930, A.C.A.; (Agar, Bates, Neal & Co), and (Agar, Bates, Neal, King & Co), 106 Edmund Street, Birmingham, 3.

Darbyshire, Brian; 1947, A.C.A.; (Grace, Darbyshire & Todd), 19 Whiteladies' Road, Bristol, 8.

Edwards, Frederick Ignatius; 1941, A.C.A.; (Agar, Bates, Neal & Co), and (Agar, Bates, Neal, King & Co), 106 Edmund Street, Birmingham, 3.

Falkner, Alfred Clifford, B.Sc.; 1928, A.C.A.; (*Price Waterhouse & Co), 3 Frederick's Place, Old Jewry, London, EC2; (for other towns see *Price Waterhouse & Co.)

Fisk, Robert James; 1933, A.C.A.; (James Fraser & Sons), 31 Copthall Avenue, London, EC2.

Fordham, William Edward (Jnr.); 1936, A.C.A.; (James Fraser & Sons), 31 Copthall Avenue, London, EC2.

Giles, Ronald Reese; 1948, A.C.A.; (John Craggs & Co), 5 Throgmorton Avenue, London, EC2.

Gill, Herbert Sidney; 1930, A.C.A.; 5 Royal Terrace, Esplanade, Weymouth.

Kay, Reuben; 1948, A.C.A.; 41 South King Street, Manchester, 2.

King, Edmund Hugh; 1931, A.C.A.; (Agar, Bates, Neal &

Co), and (Agar, Bates, Neal, King & Co), 106 Edmund Street, Birmingham, 3.

Neal, Peter Theodore; 1935, A.C.A.; (Agar, Bates, Neal & Co), and (Agar, Bates, Neal, King & Co), 106 Edmund Street, Birmingham, 3.

Pyne, James Campion; 1935, A.C.A.; (Campion Pyne & Co), and (Dunn, Carey & Co), 12 Buckingham Street, Strand, London, WC2.

Wand, Philip; 1948, A.C.A.; (Philip Wand & Co), 71 High Street, Southend-on-Sea, Essex.

Wenham, Peter Gilbert; 1947, A.C.A.; (Walter Smee, Will & Co), 178 Charing Cross Road, London, WC2.

Whiting, Kimmis Alfred; 1936, A.C.A.; (James E. Ward & Son), 18 Gower Street, London, WC1, and (Littlejohn, Wilson, McKnight & Co), 15 Cullum Street, London, EC3.

Wotton, Morgan George; 1948, A.C.A.; (*Richard Jones & Co), 8 Meyrick Street, Pembroke Dock, and at Milford Haven; also at Carmarthen, Fishguard and Haverfordwest, (*Pritchard & Co).

TAXATION AND RESEARCH COMMITTEE

The seventieth meeting of the Taxation and Research Committee was held at the Institute on Thursday, July 23rd, 1953, at 2 p.m.

Present: Mr G. G. G. Goult (in the chair); Messrs R. P. Brown, J. B. Burnie, W. G. Campbell, P. F. Carpenter, F. Carruthers, J. Cartner, D. A. Clarke, J. Clayton, R. W. Cox, W. G. Densem, R. B. Dixon, S. Dixon, W. P. Elliott, O.B.E., A. E. English, F. J. Eves, E. S. Foden, F. M. Gilliat, G. S. Hamilton, S. C. Hand, E. A. Harris, E. N. Macdonald, D.F.C., J. W. G. Mitchell, R. J. Ogle, R. A. Palmer, T.D., A. H. Proud, P. M. Rees, M.C., P. V. Roberts,

*placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

H. F. Strachan, A. G. Thomas, W. F. Tidswell, R. Walton and G. H. Yarnell, with an Assistant Secretary of the Institute and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

Reports of Standing Sub-Committees

Reports from the following standing sub-committees were received:

- General Advisory Sub-Committee (including progress reports by three drafting sub-committees).
- Management Accounting Sub-Committee (including progress reports by two drafting sub-committees).
- Taxation Sub-Committee.

Ad hoc Sub-Committees

Progress reports were received from three special sub-committees.

Next Meeting

The next meeting was fixed for Thursday, September 17th, 1953, at 2 p.m.

Personal

MESSRS HARRISON, WEST, LEDSAM & Co, Chartered Accountants, of 33 Waterloo Street, Birmingham, and at London, announce that they have admitted into partnership Mr LESLIE MATTHEW WILDBORE, A.C.A., and Mr WILFRED LAURENCE RICHARDSON, A.C.A., both of whom were article to the firm and have been connected with it for a number of years. The style of the firm will remain unchanged.

MR B. P. HEGARTY, A.C.A., deeply regrets to announce the sudden death of his partner, Mr FRANK JOHN WHEELER, F.C.A., which occurred on August 12th. The practice will be continued as hitherto under the style of F. J. WHEELER, Chartered Accountants, at Bevois House, 27-30 Basinghall Street, London, EC2.

The late Mr H. Crewdson Howard, F.C.A.

The following memoir of the late Mr H. Crewdson Howard, whose death was reported in our issue of August 8th, 1953, has been forwarded by a friend:

Henry Crewdson Howard was born on September 3rd, 1868, of Quaker stock, the third son of the late Joseph Howard who was for 20 years Conservative Member of Parliament for Tottenham, from 1885 to 1905. He was educated at Haileybury College, and then served his articles with Wenham, Angus & Company, and after passing the final examination in December, 1892, was admitted an Associate of the Institute in 1893. Shortly afterwards he was invited by Ernest Crewdson of Manchester to join him in partnership in the firm which the latter was then starting in London which was therefore named Crewdson, Youatt & Howard. He became a Fellow of the Institute in 1899.

He was invited to join the Council of the Institute in 1924 and served on many committees, acting as Chairman of the General Purposes Committee for many years. In the 1930s he was asked whether he would allow himself to be nominated for the Vice-Presidency with the intention that after a year in that office he should become President, but he did not feel

able to undertake the arduous round of public speaking which this would have involved.

In January, 1947, when the then Vice-President was required to take over the Presidency on the death of the late Mr Furnival Jones during his year of office, Howard was appointed Vice-President for the remainder of the year, and he fulfilled the duties of that office to the admiration of all. He retired from the Council at the end of 1952 after 28 years' service, but continued in practice at the office of his firm, Pannell, Crewdson & Hardy, regularly attending about three days a week, and thus completed 60 years of active professional life before he died.

He was a member of the livery of the Worshipful Company of Clockmakers, but only joined comparatively late in life.

He was a keen golfer, and a member of the Chislehurst Golf Club for a great many years. He was elected captain in 1926. Latterly he served as chairman of the Board of Directors of Camden Place Limited, the company which owns the Golf Club premises, and devoted many hours of thought and work as the leading spirit in the reconstruction of the historic club-house after bomb damage.

For nearly 30 years he was on the committee of the Bromley Hospital, Kent, and from 1943 onwards, as chairman, he piloted the hospital through a period of considerable expansion in the years prior to the National Health Service Act. When the Act came into force on July 8th, 1948, it was a source of great pleasure to him that notwithstanding his age he was asked to serve on the Bromley Group Hospital Management Committee, of which he became Vice-Chairman and of whose Finance Committee he was Chairman. He had been acting as treasurer of the Kent County Branch of the British Red Cross Society for more than fifteen years and also of the joint committee of the Red Cross and Order of St John in that area. His long service was recognized by both bodies and he also received the Coronation Medal for this work.

For nearly twenty years he had been the active chairman of council of the Crown & Manor Boys' Club, Hoxton, where his keen insight into and wide sympathies with boys enabled him to do invaluable work.

He always took a lively interest in the fortunes of his old school, and as a founder member of the Old Haileyburian Society, he was an active supporter of it during the whole of his life.

His record of voluntary work shows that he had a fine sense of public duty, and in carrying out such work he was as meticulous and efficient as he was in regard to professional matters. Much of his service on the Council of the Institute was done behind the scenes on committees and sub-committees, and only comparatively few people know how much the Institute owes to his untiring and unobtrusive work. Those of his colleagues who were privileged to be closely associated with him greatly esteemed his ability, enthusiasm and efficiency, and they held him in real affection because of his fine character and his charm. He will be greatly missed by a multitude of friends.

Crewdson Howard married in April, 1903, Annie Curling Sprague, and thus celebrated his Golden Wedding this year. She survives him, together with a son, Mr Joseph Crewdson Howard, F.C.A., who is a partner in the firm, and two daughters.

G. D. S.

Union of Chartered Accountant Students' Societies

It has been announced by the Union of Chartered Accountant Students' Societies that essays may now be submitted for the 1953 Essay Competition on one of the following subjects:

(1) Discuss whether, normally, the period of National Service should precede or follow occupational training such as accountancy articles.

(2) Assuming that there is no accepted definition of the word 'profession', explain how you, personally, would decide a claim that a given occupation could properly be called 'a profession.'

The competition is open to all members of students' societies which are members of the Union and essays should be sent in to the Secretary of the competitor's students' society from whom copies of the rules governing the competition can be obtained; the closing date for submission of entries is September 30th, 1953.

Prizes of £10 10s, £5 5s, and £2 2s are offered, with a special prize of £5 5s for the best essay from a student who had not passed the Intermediate examination before February 15th, 1953.

Chartered Accountants' Hockey Club

BANK OF ENGLAND WIN BY 5 GOALS TO 1

The Bank of England played the steadier game in the melting heat of Wednesday evening, August 12th, to win their first game against the Chartered Accountants' Hockey Club.

Although the chartered accountants spent a large part of the game in their opponents' '25', they did not settle down until the second half when B. G. Henderson and P. Gaastra made some determined attacks; but the Bank goalkeeper's timing in rushing the attack was faultless.

E. C. Harris scored the sole goal for the Institute XI in the first half.

The side representing the chartered accountants was:

J. S. Kinross (*Guildford*), J. F. Staddon (*Epsom*), P. C. Kay (*Hampstead*), A. R. Tunnicliffe (*Surbiton*), R. P. De C Du Mee (*West Essex*), W. L. Rowland (*Purley*), E. C. Harris (*Blue Harts H.C.*), B. G. Henderson (*Burgess Hill*), C. O. Merriman, (captain), (*Reigate*), P. Gaastra (*Reigate*), E. H. Head (*Burgess Hill*).

A return match is to be played on Wednesday, September 9th, at 6.30 p.m. and club members will be welcomed at the Bank of England Sports Club Ground, Priory Lane, Roehampton.

Taxation Lectures

It is proposed to hold two courses, each of seven lectures, on taxation law and practice, at the Kingsway Hall, London, in September.

The first course will be held on Wednesdays, commencing on September 16th, and is planned for advanced students and practitioners. The lecturer will be Mr Percy F. Hughes, F.C.I.S., A.S.A.A., assistant editor of *Taxation*. The second course, for

intermediate students, will be held on Thursdays, commencing September 17th.

All lectures will begin at 6.15 p.m. and will be of 1½ hours' duration. The fee for each course is £1 1s, and applications for admission cards should be sent to Mr Ernest T. Green, F.C.C.S., Kingsway Hall, Kingsway, London, WC2. Further details of the courses will be published in a future issue.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 25TH, 1928

Extract from a letter to the Editor.

Accountants and the Public

SIR,—Apropos of certain remarks which were passed at the last Annual Meeting of the Institute I, like many others, was then of opinion that there could be little, if any, confusion between a member of the Institute and an unqualified accountant, but my views have been altered by two matters which have occurred in the past week in this office.

In the first case I was told that Mr. X., of the firm of X.Y. & Co., was the Chartered Accountant who audited a certain balance sheet, and on my telling the proprietor of the business that Mr. X. did not appear in the Institute list, I was told that he certainly was a Chartered Accountant. The eventual explanation was that two of the partners in X.Y. & Co. were Chartered Accountants and that "X." had neither the Institute nor Society qualifications. . . .

May I respectfully suggest that publicity of the "constant dripping water" type would be more effective than an article in *The Times* for removing doubts as to the real meaning of the mystic letters following a name and for educating the public as to the value of the Institute and Society qualifications.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 24TH, 1878

To the Editor of the Accountant.

Charter of Incorporation

SIR,—With reference to the question of a proposed application for a Charter of Incorporation for the Accountants of England, I am glad to observe that the Royal Commission on the Stock Exchange, in their report just issued, recommend as a remedy for the evils which exist in its constitution as a merely voluntary association, subject to no external control whatever, that it should be created a corporate body, either by Royal Charter or by Act of Parliament, and proceed to state that protection would thus be afforded not only to the public but to members of the Stock Exchange themselves against sudden and ill-advised changes at the instance of a numerical majority of the members for the time being, and that in other respects incorporation would seem to offer considerable facilities and advantages to the institution and would lessen the personal responsibility of the members of the governing body.

Yours, &c.,
X.

16th August, 1878.

Searle, J., Seven Kings.
Shute, F. E., Abbey Wood, London.
Smith, J. F., Rowlands Gill, Durham.
Stamp, K. E., Stourport.
Stubbs, D. R., Croydon.

Tiner, K. I., Guildford.
Uncle, H. S., Hounslow.
Vine, W. L., Dartford, Kent.
Walker, W. J., Queensferry.

Wallace, J., Wishaw.
Waller, A. L., Croydon.
Ward, E., Bolton.
Wareing, W., Warrington, Lancs.
Wordie, J. C., Peterhead.

* Donald L. Moran Prize (Management-Factory and Distribution)

328 candidates sat. Of these, 78 candidates passed and 250 candidates failed.

PART B (COMPLETING FINAL)

Armitage, E. L., Weybridge.
Atherton, A. H., Winsford, Cheshire.

Back, D. S., Wandsworth, London.
Barron, F., Hartlepool.
Bartlett, P. M., Braintree.
Bates, C., Wrexham.
Bennington, P., Cleethorpes.
Bingham, J., Gourock.

Carter, A. E., Abingdon.
Clatworthy, E. J., Camborne.

Davidson, J. S., Kenton.
Dempster, C. J., Merton Park, London.

Edgar, G. C., Willesden, London.
Edwards, S., Tipton.
Evans, M. G., Bilston.

Garnett, D., Northallerton.
Geoghegan, D. J., Prestwich, Manchester.
Gerran, L. D., Windsor.
Gledhill, A. J., Oldham.

Grant, A., Aberdeen.
Greaves, Kenneth, Bilston.

Heath, M. A., Glasgow.
Hindle, A., Oldham.
Holden, E. K., Wallasey.
Hudson, G. L., Neasden, London.
Hurley, H. A., Bristol.

Ives, T. A. W., Norwich.

Jackson, J., Thornton, Blackpool.
Janca, K., Newport, Mon.

Keyworth, A. G., Sheffield.

Lavender, A. T. C., Dudley.
Lawrence, D. E., Redditch.
Lee, A., Accrington.
Lorrman, G. A., Rugby.

McCall, W. J. C., Brierley Hill.
Miller, R. G., Waltham Abbey.
Morrison, H. I., Linlithgow.

Nelms, V. A., New Addington.

Oakes, L., Horden.
O'Brien, D., Gorton, Manchester.

Phelan, A., Hull.

Raggett, V. P., Bexley Heath.
Robson, J., Newcastle upon Tyne.

Saggs, V. T. P., Chelmsford.
Stepney, S. H., Woodford, Essex.
Stocker, L. R., Birmingham.
Stringer, J. J., Woodford, London.
Sutcliffe, T., Burnley.

Torrens, W., Paisley.

Walker, E. H., Sutton Coldfield.
Walpole, E., Thornbury, Yorks.
Webb, B. R., Battersea, London.
Whittaker, N. S., Blackrock, Eire.
Wolfe, A. E. T., Tooting, London.

York, R. G., Plymouth.

84 candidates sat. Of these, 55 candidates passed and 29 candidates failed.

Summary of Results – Home Candidates

FINAL						INTERMEDIATE					
	Pass (Completing Final)	Pass Part A	Pass Part B	Failed	Total		Pass Parts I & II	Pass Part I	Pass Part II	Failed	Total
FINAL Parts A & B	45	8	62	52	167	INTERMEDIATE Parts I & II	117	31	—	158	306
FINAL Part A (Completing Final) ..	78	—	—	250	328	INTERMEDIATE Part I ..	—	324	—	708	1,032
FINAL Part B (Completing Final) ..	55	—	—	29	84	INTERMEDIATE Part II ..	—	—	369	240	609
FINAL Part A (only) ..	—	33	—	185	218	TOTAL ..	117	355	369	1,106	1,947
FINAL Part B (only) ..	—	—	140	144	284	PRELIMINARY					
TOTAL ..	178	41	202	660	1,081	Pass	Fail		Total		
						35	119		154		

MOTOR — FIRE — CONSEQUENTIAL LOSS

CAR & GENERAL INSURANCE CORPORATION **L^{TD}**

83, PALL MALL, LONDON, SW1

The Accountant



AUGUST 29TH, 1953

ESTABLISHED 1874

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CONTENTS

Leading Articles	Page
The C.P.A. Handbook	241
New Zealand Companies Bill	243
The Finance Act, 1953 - IV	244
Pensions and Allowances	246
Special Articles	
The Provincial Accountant - I	
by John Unett, A.C.A.	247
Settlements and Tax	
by T. J. Sophian	248
Days from My Diary	
by A Martyred Accountant	250
Lecture	
Organization and Activities of the Accounting Profession In the United States - I	
by John L. Carey, Executive Director, American Institute of Accountants	251
Weekly Notes	
Depreciation of Shipping - Record World Oil Output - United States and Sterling Convertibility - Agreement on Sugar - Export Competition in Engineering - Higher Home Consumption	255
Reviews	257
Finance and Commerce	
The Greyhound Racing Association Trust Ltd - Money Market	260
Current Law	264
Correspondence	
Gifts <i>Inter Vivos</i> - Debenture Redemption - Cheque Endorsement - An Accountants' Christian Fellowship Proposed - Smoking in Examination Rooms - Accounting for Inflation - Installation of a Stock Control System - Tyre Retreading: Costing System	265
Notes and Notices	
Personal - Professional Note - Lord de L'Isle and Dudley, v.C., M.A., A.C.A. - Excess Profits Levy - Census of Distribution Results - Incorporated Accountants' South Wales and District Society - The Institute of Cost and Works Accountants - Our Contemporaries - Twenty-five Years Ago - Seventy-five Years Ago	267

THE C.P.A. HANDBOOK

THE second volume of the certified public accountants' handbook, just issued in America, has the same monumental characteristics as the first volume, which appeared earlier this year. Together, the two form a comprehensive guide to the subject of professional accounting on a scale which has seldom been attempted before.¹

The plan of the complete work, despite the immense amount of ground it covers, is simple. The opening chapter gives the historical background of the profession and states clearly and concisely its aims. The next five chapters (two to six) review in detail the problems of principle which confront the accountant setting up in practice. Then follow a further six chapters (seven to twelve) on the practical aspects of running an office. Chapters thirteen to twenty consider auditing procedures and techniques, and chapters twenty-one to twenty-five cover the variety of services which the accountant can offer to his clients in other and more specialized fields, such as taxation and the installation of costing and accounting systems. The last two chapters (twenty-six and twenty-seven) are assessments of the respective duties of junior and senior assistants.

The second volume takes up the theme at chapter fourteen, which deals with the planning and control of audit procedures. Many practitioners, with audit programmes 'tattered and torn and all forlorn', will regard with wonder the comprehensiveness of the specimen 'checklist' - given as an appendix - from which one medium-sized firm prepares its audit programmes. A feature of this particular example is that it recommends that the budgeted time for each individual operation should be stated and the time actually taken noted alongside. Comparisons of the two are helpful in allocating and controlling both work and staff, in promoting efficiency in assistants and in drawing the partners' or managers' attention to matters requiring further consideration. Another interesting point stressed in this chapter is that clients should be educated and encouraged to give as much help as possible to the auditor by ensuring that their records are in good order and by the production of fully informative schedules and reconciliations. The question of audit working papers generally, is considered in the next chapter and extensive reference to these 'working tools' of the practising accountant's equipment is also made in the later chapter on the duties of a junior accountant. As the task of preparing many of the audit schedules usually devolves on the junior members of the staff, it is of prime importance that they should

¹ *C.P.A. Handbook*, Volumes I and II. Edited by Robert L. Kane, junr. American Institute of Accountants, New York. \$27 complete. An article on Volume I appears in *The Accountant* of February 21st, 1953, at page 199.

receive proper instruction in this aspect of their work at the outset of their training.

Chapter sixteen deals with a question which is often very difficult for the auditor to answer satisfactorily – the amount of reliance which may be placed on a client's system of internal control. To help him in his appraisal, the report on internal control – with some excellent organization charts as a supplement – prepared by the Committee on Auditing Procedures of the American Institute of Accountants has been reproduced in full as an appendix to the text, as have also a number of specimen questionnaires. While these last documents have a specific application to particular types of businesses, they nevertheless give the auditor a clear indication of both the strength and weakness in a client's system of internal control.

During the past fourteen years, the American Institute of Accountants has issued forty-two research bulletins, eight on the terminology of the profession and thirty-four on such subjects as stock valuation, depreciation, taxation, reserves and intangible assets. These publications are analogous to the series of recommendations made from time to time in this country by the Council of The Institute of Chartered Accountants in England and Wales. The thirty-four bulletins dealing with accounting principles have recently been restated and reissued in booklet form¹ – the eight on terminology will shortly, similarly, be replaced – and it is recommended by the editors of the handbook that this revised and collected version should be inserted as an appendix to chapter seventeen. This reinforcement makes this particular chapter – which is entitled 'Accounting principles and their application' – the most formidable of the entire work as it already has another appendix crystallizing the views of the American Accounting Association on similar problems.

The two succeeding chapters – on financial statement presentation and report writing – are cautionary and full of sound sense. Both exercises require a combination of mathematical and literary talents, the former being perhaps more necessary for the financial statement and the literary ability being at least of equal importance in the produc-

tion of a good report. It will be generally admitted that the average accountant is more at ease drafting balance sheets than writing about them. The appendices giving extracts from the report manuals of two large firms admirably supplement the text of the second of these chapters. Once, therefore, he has mastered the precepts they contain, the practitioner, when next he has to forsake figures for the less familiar medium of prose composition, should be much better able to visualize the essentials of form, style and contents of even the most hypothetical report.

The rest of this volume of the handbook is devoted to particular, rather than to general, aspects of professional practice. Chapter twenty covers problems peculiar to special types of businesses and the next five are concerned respectively with tax practice, the development of accounting systems, cost accounting and control, special investigations and, lastly, the accountant as a business consultant. It was originally intended to include the two final chapters on the duties of junior and senior accountants within the covers of this volume but, owing to the amount of other material, these have been published separately as a supplement.²

All that remains now to round off this great undertaking is the promised index. It was said by GIBBON that finishing his famous history was like taking an everlasting leave of an old and agreeable companion. The editor and authors of the *C.P.A. Handbook* – whose services, it should perhaps be repeated, are voluntary and unpaid – may feel much the same emotion, although the analogy, on reflection, is by no means exact. The handbook is not a historical record of decline and fall, but a manual of the current practices of a great and growing profession and, as such, has no finality. Current practices, although always true to the eternal verities, are continually changing in techniques, and it looks, therefore, as if the labour of the compilers and their successors in keeping the various sections up to date will be perpetual. The loose-leaf format of the volumes suggests that such is the intention and, if the eventual restatements and revisions are of the same inspiring quality as the originals, then the thanks of accountants everywhere will, in equal measure, be constantly renewed.

¹ *Restatement and Revision of Accounting Research Bulletins*. American Institute of Accountants, New York. \$3 cloth bound; \$2 paper bound.

² *Duties of Junior and Senior Accountants*. American Institute of Accountants, New York. \$3.

NEW ZEALAND COMPANIES BILL

GREAT BRITAIN is not the only country to overhaul her company law in recent years. South Africa has passed several amending laws, and the report is awaited of a committee on company law reform which was set up by the Irish Republican Government early in 1951.

There is now before the New Zealand Parliament the 469-clause Companies Bill which is a consolidating bill amending that country's Companies Act of 1933. The Bill follows the appointment in 1950 of a committee to advise the Government there on company law revision, and it is modelled on Great Britain's Companies Act of 1948, with slight variations to meet local conditions. This gives the advantage of being able to apply this country's case law to most of the problems arising in New Zealand.

The accounting provisions of the Bill are naturally of most interest to the majority of our readers. Clause 151, dealing with the keeping of books of account, differs slightly from Section 147 (1) of the 1948 Act. The latter provides as follows:

'147 - (1) Every company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company;
- (c) the assets and liabilities of the company.'

Section 147 (2) requires the books to give a true and fair view of the state of the company's affairs and to explain its transactions. Clause 151 of the New Zealand Bill provides:

'151 - (1) Every company shall cause to be kept proper books of account in which shall be kept full, true and complete accounts of the affairs and transactions of the company.'

The phrase 'true and fair view' does not appear in this clause but appears in Clause 153, which corresponds to Section 149 of this country's Act (general provisions as to contents and form of accounts).

Like Section 148 of the 1948 Act, Clause 152 of the New Zealand Bill requires the annual accounts to be made up to a date not earlier than nine months before the general meeting to which they are submitted. Unlike Section 148, however,

Clause 152 contains no provision for extension of this period where the company carries on business or has interests abroad. The requirement in Section 158 to send copies of accounts to debenture-holders is omitted from the New Zealand Bill.

The Bill also has its terrifying Eighth Schedule, which, while containing the substance of the one in this country, adopts a different order of presentation. It is open to modification by Order in Council and also, in particular cases, by the Minister of Justice.

Clause 163 (appointment of auditors) closely follows its British counterpart (Section 159) except that it contains a separate sub-clause dealing with firms of accountants, as follows:

'163 - (2) The appointment of a partnership by the firm to be the auditors of a company shall be deemed to be the appointment of all the persons who are partners in the firm at the time of the appointment.'

Clause 165, dealing with the qualification of auditors, has the following sub-clause:

'165 - (4) No person shall be qualified for appointment as auditor of a company unless he is a member of the New Zealand Society of Accountants, or a member, fellow, or associate of an association of accountants constituted in some part of the Commonwealth outside New Zealand, and for the time being approved for the purpose of the audit of company accounts by the Minister by notice published in the *Gazette*:

'Provided that nothing in this subsection shall disqualify any person appointed as auditor of a company before the first day of April, nineteen hundred and thirty-four, from acting as auditor of that company, or from being at any time and from time to time reappointed as auditor thereof.'

The Minister in question is the Minister of Justice.

Presumably Clause 163 (2), reproduced above, is subject to the overriding necessity for an individual to be a qualified accountant within Clause 165 (4).

Clause 166 (3) gives the auditor the right of access to the 'books and papers' of the company, whereas in Great Britain the right of access is to the 'books and accounts and vouchers' (Section 162 (3)). It is perhaps doubtful whether the latter expression extends to documents of title, such as the title deeds of property.

THE FINANCE ACT, 1953—IV

Section 20: What Constitutes a Group

THE Millard Tucker recommendation giving rise to Section 20 speaks of payments between companies in the same 'group'. The word group does not occur in the Section but a subvention payment does not qualify for Section 20 treatment unless the paying and receiving companies are 'associated' within the meaning of the section for the purposes of that payment (Section 20 (1)). That is, one company must be a subsidiary of the other or both must be subsidiaries of a third company (Section 20 (10)). In addition, this state of affairs must have continued throughout the period from the beginning of the recipient company's accounting period in which the relevant deficit occurred, to the date on which the payment is actually made.

'Subsidiary' has the meaning assigned to it by Section 42 of the Finance Act, 1938, i.e. the subsidiary must be a subsidiary in the profits tax sense, which means, broadly speaking, a 75 per cent subsidiary. A subsidiary for the purposes of the Companies Act, 1948, which requires in general only a 51 per cent holding, is not necessarily a subsidiary for Section 20 purposes (see *Lamb Brothers (Humber Sales) Ltd. v. C.I.R.* ([1949] 28 A.T.C. 187)). Incidentally, the Millard Tucker Report recommended that the new provision should apply only to 90 per cent subsidiaries. This was the percentage adopted for excess profits tax purposes. However, it is clearly more convenient to have the same test for income-tax, profits tax and excess profits levy.

Section 20 (1) (6): Accounting Period

The expression 'accounting period' in Section 20 is not defined but is presumably intended to mean any period for which accounts are made up and submitted to the Inland Revenue. However, it is clear that for the purposes of Section 20 (2) of the Finance Act, 1937, dealing with profits tax, a period for which accounts are made up is not necessarily an 'accounting period'. Moreover, Section 35 (4) (b) of the Finance Act, 1953, provides that Part III of that Act (which includes Section 20) is to be construed, as far as it relates to profits tax, as one with Part III of

the Finance Act, 1937 (which includes Section 20 (2) of *that* Act). Nevertheless, a period of accounts will normally be an accounting period for the purpose of the new provisions.

Section 20 (6): Corresponding Period

Having fixed the accounting period of the recipient company, it remains to determine the 'corresponding period' of the paying company. Where the paying company has an accounting period coinciding with that of the recipient company, that is the corresponding period (Section 20 (6) (a)). This should be the normal case, for Section 153 (1) of the Companies Act, 1948, provides as follows:

'153-(1) A holding company's directors shall secure that except where in their opinion there are good reasons against it, the financial year of each of its subsidiaries shall coincide with the company's own financial year.'

In other cases the Inland Revenue determines the corresponding period and there is no appeal from their decision. The corresponding period must be of the same length as the accounting period to which it corresponds - another case of an Act of Parliament trying to achieve the impossible, for the paying company may not be in existence so long.

A complication which has been foreseen is the case of a paying company making subvention payments to two or more companies at once, the payee companies having accounting periods of different lengths. This is dealt with by Section 20 (3) which will be considered below under the heading 'Restriction on Amounts of Subvention Payments'.

Section 20 (2): Conditions to be Satisfied by Subvention Payment

To be within Section 20 the payment by one associated company to another must satisfy the following conditions:

- (a) it is made under an agreement providing for the paying company to bear or share in losses or a particular loss of the payee company;

- (b) it does not otherwise fall to be taken into account in computing the profit or loss of either company;
- (c) the payee company would not otherwise have to bear tax on it, by deduction or in any other way; and
- (d) it is made before the end of the tax-year following the tax-year in which the payee company's accounting period in question ended.

Section 20 (3): Restriction on Amounts of Subvention Payments

Subvention payments qualifying for Section 20 treatment are not only restricted as indicated above; they are also restricted in amount. If a company receives a payment which satisfies the section in other respects but which exceeds the total deficit in question, the excess is disregarded for Section 20 purposes (Section 20 (3)). The same applies to the aggregate of several payments received by the payee company from one or more associated companies in respect of the same deficit. Each payment is then abated as necessary as all the companies shall agree. In default of agreement the Inland Revenue decides the individual abatements.

In the same way, a subvention payment which exceeds the paying company's surplus for its corresponding period is reduced, for Section 20 purposes, by the amount of the excess. Now the company may make several payments to different associated companies, and if its corresponding period is the same for all those payments, they are aggregated and compared with the surplus for that corresponding period. Where the corresponding period is not the same, as, for example, when the payments are made in respect of accounting periods of varying lengths, the proviso to Section 20 (3) makes special provision to ensure that the limit is realistically applied. It provides that where the corresponding periods overlap, no matter how slightly, they are to be aggregated into one omnibus corresponding period, so that the aggregate payments are compared with the surplus of that period.

Example:

A., B., C., D. and E. are associated companies and A. makes subvention payments to the other four in the amounts shown below, in respect of the accounting period shown. No payment exceeds the respective deficit.

	£
B., six months to December 31st, 1953 ..	1,000
C., five months to December 31st, 1953 ..	500
D., twelve months to March 31st, 1954 ..	700
E., fourteen months to May 31st, 1954 ..	800
	£3,000

Under the normal rule, since the above periods are of differing lengths, A. would have four different corresponding periods for the purpose of restricting each payment to the corresponding surplus. Under the proviso to Section 20 (3) the corresponding periods are to be amalgamated if they overlap. Assume that the Inland Revenue had, in each of the four cases, fixed a corresponding period which coincided with the payee company's accounting period, it is clear that the one in case E. would include the other three and the corresponding period for all four would be the fourteen months to May 31st, 1954. If the £3,000 exceeded A.'s surplus for that fourteen months, then each of the four subvention payments would abate accordingly. The amount of each individual abatement would be fixed by the agreement of all five companies. In default of agreement the Inland Revenue would decide.

The rules for computing the amount of a deficit or surplus (Section 20 (5)) will be dealt with in the next article.

Section 20 (4): Apportionment of a Single Subvention Payment

Just as several subvention payments may be aggregated, so may a single subvention payment be apportioned. It may have been made in respect of deficits incurred by the same company in two or more accounting periods. One of them may already be out of date for Section 20 treatment (Section 20 (2) proviso). Even if both periods are in date, it is necessary to apportion the payment for the purpose of deciding the amount to be credited in each period and of applying the maxima imposed by Section 20 (3). Section 20 (4) directs that the apportionment is to be such as appears to the Commissioners concerned (General or Special) to be 'just'.

The subsection applies similarly where the payment is made in respect of two different trades carried on by the payee company.

(To be continued.)

PENSIONS AND ALLOWANCES

ONE of the most striking features of the present century is the great increase in the expectation of life which has come about during the last fifty or so years. In 1901, the expectation of life of a male child was 46 years; it is now 67 years. For females, the corresponding figures are 50 and 72. This is progress in the best sense of the term but it has brought with it some very difficult economic and financial problems.

The increase in the expectation of life, coupled with a birth-rate much lower than that of half a century ago, has resulted in a steadily growing proportion of old people in the community. Moreover, this proportion is likely to continue to grow. One obvious result of this trend is that a stable or even declining number of producers will have to support a steadily rising number of retired people. Even if there were to be a substantial increase in the birth-rate—large enough that is to alter appreciably the proportion of elderly people—the burden of dependants would grow at an even faster rate for nearly a generation.

The coming into force of the various pension schemes connected with the Acts of 1945 and 1948 and their subsequent amendments have laid substantial burdens on the State by way of family allowances and retirement pensions. These burdens will continue to grow and this point is emphasized in the annual report of the Ministry of National Insurance issued in the middle of July.¹

In 1951–52 the income and expenditure account of the National Insurance Funds showed a surplus of £98 million, mainly accounted for by an Exchequer grant and interest on investments. Contributions just about equalled benefits paid plus the cost of administration.

For the financial year ending March 31st next, the surplus is estimated at £22 million. This substantial decline in the amount of the surplus is due partly to the increased benefits both for family allowances and retirement pensions granted as part of the 1952 Budget proposals. Even if there are no further increases in the scales of benefit, the surplus will have disappeared next

year and thereafter there will be a steadily rising annual deficit which will have to be made good out of general taxation.

Thus, the deficit expected next year is of the order of £18 million, that for 1957–58 £103 million. Ten years later it will have reached a figure of £275 million, and by 1977–78 the estimated deficit is £420 million. At present there are 6.75 million persons of pensionable age; five years hence the number will have risen to 7.4 million, and twenty-five years from now it will be 9.7 million. Accompanying this increased cost of pensions and allowances will be higher costs of the other social services, education and health in particular.

It may be asked why it is that these deficits will arise. The answer is that the scheme is not fully contributory; nor was it ever intended that it should be. But the growing volume of payments means that current revenues are being used to meet them more and more, and this reduces (and must still further reduce) the funds invested at compound interest. Then there is the rising proportion of pensioners; at the moment there is one retirement pensioner to six contributors; a quarter of a century hence there will be one pensioner to three contributors.

The question naturally arises of the ability of this country to meet these additional burdens. It is hard to believe that taxation can be substantially increased above its 1952 level—at least during peace-time. Increased productivity could provide the resources. Between 1901 and 1951 output per head doubled—but it will need a faster rate of increase than this to cope with all the increased social benefits likely to be paid out in the future.

A higher retirement age is another possible solution, and the longer expectation of life surely makes this worthy of consideration. For the most part, a man of 60 today is more capable of giving a good day's service than was his father at the age of 55. The individual owes much to the State by way of social benefits; it is not too much to expect that he should help to earn these benefits by working longer. And, for its part, industry must be more willing to employ people who have passed the present retiring age.

¹ Cmd. 8882, H.M.S.O. 3s 6d. See *The Accountant*, dated July 25th, 1953.

THE PROVINCIAL ACCOUNTANT—I AS FINANCIAL ADVISER

by JOHN UNETT, A.C.A.

TO deliver typed accounts to a client, deal with the tax assessment, then forget about the whole thing until next year, as many accountants do, may be to miss an opportunity of expanding the practice by giving what is described in other spheres of business as 'after-service'.

Unfortunately, the accountant seldom realizes just how ignorant his client is. It does not occur to him that by simply studying the books and putting the figures together year by year he has probably learned more about the inside working of the business than the proprietor.

Yet he will be the first to agree that the proprietor does not make full use of the accounts. Instead of treating them as the beginning of something, he treats them as the end. The typed balance sheet for him, marks the close of a period – not a way to look at his business from a new angle.

Needless to say, some business men with that point of view will never change. They are in a small way precisely because they are small people. But here and there the accountant will have a client who is different and it is with that client – or those clients, for there will be several – that he could prove himself far more valuable than merely a stepping-stone between taxpayer and tax-collector.

How then can this idea be developed? How should it be approached?

To give advice to a client in the form of an analysis of past results in a formal report is the worst way. The small man must be led – conducted through his accounts – shown, for example, how it is that one section of his business has become more of a burden each year until it is now being carried by the others. He must be shown *why* his wages in one department are too high; *why* he should economize here so that he can expand there.

'That is all very well,' I can hear some accountant say. 'But they would never pay for that kind of work. They would not make it worth while.'

Yet there is no reason why the fee should not be based on results. It might, for example, be a percentage of the increase in net profit, or an agreed fee payable when the result of the advice is reflected in subsequent profits. The actual

arrangement must vary with the value of the advice given, but there is no reason why it should not be related to the result.

From the tradesman's point of view there are many advantages in this kind of service offered by a man he already knows and whom he can trust. It would help him to see his business not as a year-to-year concern, but as existing in time with a past and a future, the one largely the result of the other. Also it would bring into service to the advantage of industry in general a great store of knowledge that at present lies unused in the brains of accountants all over the country.

After all, the success of a business depends in the last resort on its being more efficient than its competitors. If it is only of equal efficiency, though it may run on for years with more or less level profits, adversity hits that kind of business hard. It has no resilience. It should be sensitive to every movement in its particular class. It must be so geared that it can head rapidly in whatever direction is most favourable. It must watch constantly what is happening inside itself; know what took place, not last year, but last week.

This can only be done by giving the closest attention to the accounts, closer than is normally done. It requires the application of knowledge that is highly specialized. It involves first of all extracting, then displaying intelligibly, the pattern of the business woven by the past so that it can be changed where necessary to suit the future. When it comes to planning the future, the more reliable the information available, the better. The accountant is rarely called upon to plan the future policy of a business (though he may be closely connected with it). His main function is to produce figures and provide information for the man whose experience, though narrower in the sense that it is confined to his particular trade, is deeper.

The general level of efficiency controls the extent to which the business will progress. That is why the expert accountant has such a valuable part to play in every business, large or small, but most of all in small businesses such as are handled by firms of provincial accountants.

(To be continued.)

SETTLEMENTS AND TAX

NEW PRACTICAL POINTS

by T. J. SOPHIAN

RECENT case law has affected the tax position with regard to settlements, and there are three matters of importance requiring consideration. These concern:

- (a) Absolute gifts by parents to children;
- (b) Payments out of trust capital; and
- (c) Extension of the period of irrevocability.

ABSOLUTE GIFTS BY PARENTS TO CHILDREN

If there was any previous doubt as to the position with regard to absolute and irrevocable gifts of capital by parents to infant children, it has now been finally resolved by the decision of the House of Lords in *Thomas v. Marshall* ([1953] 1 A.E.R. 1102; 32 A.T.C. 128). That case affirmed the earlier decision of the Court of Appeal in *Hood-Barrs v. C.I.R.* ([1946] 2 A.E.R. 768; 25 A.T.C. 375), and whatever the nature of the gift, the income will be treated for tax purposes, while the child remains an infant or unmarried, as the income of the parent. This is the statutory effect of Section 21 of the Finance Act, 1936.

But that decision leads one to inquire whether that section does not itself provide some means by which this 'deeming' effect can be avoided, where the 'settlement' is in the form of a gift of capital to the child.

If one considers Section 21 (3) (b) (which is now re-enacted in Section 398 (2) (b) of the Income Tax Act, 1952), it will be observed that in the case of an irrevocable settlement of capital to trustees, to be held in trust for an infant child, the income from the trust fund will not be regarded as the notional income of the parent for tax purposes, to the extent to which it is accumulated, while the child is an infant and unmarried. Paraphrasing the section, payments out of the trust fund to the child will be deemed to be the notional income of the parent, unless, and except to the extent that the payment, together with any other previous payments, exceed the aggregate amount of the trust income from the settlement.

Thus, for instance, if the settlement has been producing £1,000 per year for the last three years so that the trust income to date amounts to £3,000, any payments to the child which come within the total of £3,000 will be deemed

to be the notional income of the parent. But to the extent to which the payment, or totality of payments if more than one payment has been made, exceeds £3,000, the excess will not be treated as the income of the parent. Thus, if £3,500 had been paid to date to the child, £3,000 would be regarded as the notional income of the parent, but not the excess of £500. On the other hand, if the subsequent income brought the total of that income to a figure beyond £3,500, the excess of £500 would then be swept into the tax net and would thereupon become the notional income of the settlor.

Can the Problem be Solved?

This statutory provision, therefore, seems to provide a possible answer to the problem. Instead of the parent making his absolute gift direct to the child, he might make it to him through a trustee; who thereupon could hand over the whole of the capital to the child before any income had arisen therefrom. The payment thus made to the child would not constitute the notional income of the parent, whatever else it might be. The handing over of the capital by the trustees to the child would bring the settlement itself to an end, and the child thereupon would receive the money or other assets as his own absolute property. Any income subsequently derived from that asset could be the income only of the child and could not under any circumstances be treated as the notional income of the parent.

Nor could it be said that what was done constituted an 'arrangement', for the 'arrangement' in this case must necessarily be coincident with the natural 'settlement' and the 'arrangement' accordingly would also come to an end when the trustee handed over the gift completely to the child. Furthermore, the answer in any event would be that the settlor was merely availing himself of the express provision of an Act of Parliament, i.e. subsection (3) (b) of Section 398 of the Income Tax Act, 1952, and the principles of *Duke of Westminster v. C.I.R.* ([1936] A.C. 1; 14 A.T.C. 77) would become applicable. For the taxpayer is entitled to take advantage of the benefit of express statutory provisions in order legitimately to avoid or to reduce his liability to tax.

PAYMENT OUT OF TRUST CAPITAL

Where the right to both the trust capital and the trust income is vested in the beneficiary, then a payment out of the capital would not constitute income in the hands of the recipient. It is otherwise, however, where the beneficiary is entitled to the income, but a third person is entitled to the capital; in such a case payment out of the capital, as, for instance, for the purpose of making up a deficiency of income, would, notwithstanding be treated as the income of the recipient; and, in order to avoid such a result, it would be necessary to take steps, if there was the necessary power to take them, to effect a vesting of the capital in the beneficiary entitled to the income therefrom, before resort was had to the capital for the purpose of making up the deficiency of income.

In this connection it is of interest to note what Finlay, J., as he then was, said in *Brodie's Trustees v. C.I.R.* (17 T.C. at pp. 438-9; 12 A.T.C. 140):

'... if certain sums of capital were simply handed over by the trustees to the lady [the beneficiary] and received by the lady as capital, it is quite clear that income-tax would not attach, but it is, to my mind, not less clear that, if the sums paid were paid to the lady and were received by the lady as income... [then they would be treated as income and liable to tax].

'... one has to consider what was the source from which [the sum] was received and what were the circumstances in which it was received. If the capital belonged to the person receiving the sums - if he or she was beneficially entitled not only to the income but to the capital - then I should think that, when the payments were made, they ought to be regarded, and would be regarded, as payments out of capital, but where there is a right to the income, but the capital belongs to somebody else, then, if payments out of capital are made and made in such a form that they come into the hands of the beneficiaries as income, it seems to me that they are income and not the less income, because the source from which they came was - in the hands, not of the person receiving them, but in the hands of somebody else - capital.'

EXTENSION OF THE PERIOD OF IRREVOCABILITY

Section 38 (1) (a) of the Finance Act, 1938 (now Section 404 (1) (a) of the Income Tax Act, 1952), was aimed at powers of revocation in settlements by way of covenants for the payment of annuities, but its operation was expressly suspended where the power of revocation could not be exercised within the period of six years from the time when the first of the annual payments payable by virtue, or in

consequence, of the settlement became payable.

The recent case of *C.I.R. v. Nicholson* ([1953] 2 A.E.R. 123) illustrates the dangers that may arise where it is proposed during the currency of the settlement to extend the period of irrevocability. There the deed was dated March 27th, 1943, and the first payment of the annuity, which was payable monthly, fell due on April 1st, 1943, although it was to accrue from April 6th, 1942. The deed conferred on the settlor a power of revocation exercisable after the expiration of seven years from the date thereof, i.e. March 27th, 1950. On February 28th, 1950, the settlor executed a supplemental deed providing that the power of revocation should not be exercisable until after March 27th, 1953, and so far as was necessary for that purpose, she released her power of revocation. Up to and including the payments made on February 28th, 1950, the trustees recovered the tax deducted, but the Revenue refused repayment of tax in respect of payments made on and after March 31st, 1950.

Essentials for Exemption

According to the construction placed by Cohen, L.J., on the provision in question, in the case of *Taylor v. C.I.R.* (27 T.C. 93; 25 A.T.C. 155) it is necessary, in order that the proviso to Section 38 (1) (a) of the Finance Act, 1938, should operate, that there should be found in the same settlement, (a) the power to revoke; (b) the obligation to make the annual payments; and (c) the restriction on the exercise of the power of revocation. A settlement for this purpose may, of course, consist of more than one deed. Applying this principle to the facts in *C.I.R. v. Nicholson*, the settlement was constituted by the two deeds of March 27th, 1943, and February 28th, 1950. Under that compound settlement the first payment was due in March 1950, but the period of irrevocability was from February 28th, 1950, till March 1953, which was a period of less than six years, so that upon the execution of the second deed in February 1950, the proviso ceased to operate on the first settlement and could never come into operation on the second compound settlement.

In order, therefore, to enjoy the continued benefit of a period of irrevocability under a deed, which, when originally executed, came within the proviso in question, it appears to be necessary that the supplemental deed should continue the period for a further period of six years calculated from the date of the first payment to be made under the new compound settlement.

DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

Saturday 1st – Turn for Saturday at office. Write up office diary, find very dull; decide to start this one. Joyfully congratulate V. (articled) on passing Intermediate at third attempt. Results just published seem to have taken years off him – he should be back at school. He digs from past injudicious remark of mine about champagne supper. Neatly pigeon-hole this and at last get round to answering query on benefits in kind from (suspect very young) Inspector. X. Ltd's canteen is in works recreation room; this boasts stage, upon which directors are wont to take nourishment, and he suggests that their presence in 'a canteen in which meals are provided for the staff generally' may depend on the opening or closing of the curtain. Perhaps because it is Saturday, feel constrained to dictate following disgraceful clerihew:

'The position, we fear, in which the curtain
gets stuck
Is a matter of luck;
May we add that we have seldom come
across anything subtler,
Even from Mr Butler.'

Monday 3rd (Bank Holiday) – Try to do nothing at all except lie on sand and absorb sun. Result – obscene blisters on shoulders, twenty gnat bites, deep gash from infant's spade, and headache from trying to recall subvention provisions of new Finance Act.

Friday 7th – Dull slogging till visit, at 5 p.m. to Q., managing director of a cosmetics company. Cannot get appointments earlier; believe he rises at 1.30, starts a buyers' hour at 3, and spends the other hour seeking messy inspiration in an exotic laboratory full of tasselled cushions, gramophone records and nude statuettes. Q. receives me in raiment reminiscent of Othello (though face more like Harpo Marx). With him, subject of directors' expenses always a nightmare; now, his tiny but palatial home is having third bathroom and I am to get cost allowed – the Inspector *knows* he must be clean for his customers. Takes time to explain that Inspector is not of sanitary variety and to reach my own stock query. Finally, during farewells, he snatches up a little squirt thing and before I can object has given me a liberal coating of *Jardins Q.* Arrive home very late, and highly perfumed; my wife . . .

Thursday 13th – Office honoured by presence of W. (senior partner). On way in, W. overhears lamentations of Miss N. that her petty cash is £5 short. W. loves a difference, spends most of day looking for this one, comes to my room at 4.30 to say at great length that he has not found it and to hint darkly at defalcations. Take P.C. book from him and

give it to C. (very junior) to cast. Ten minutes later, send him to show W. offending carry-forward. W. crestfallen; remind him that even Homer nodded, at which he mutters something about never reading comic strips and goes home with the Z. Ltd prospectus, and a far-away look in his eye.

Tuesday 18th – V. comes solemnly in to ask whether I think Section 23, Finance Act, 1953, overrides Section 451, Income Tax Act, 1952, and is it retrospective? Reply that this is difficult point, but he ought to spot a case on it soon if he keeps his eyes open; laugh heartily as I say so – thank goodness! When he has gone, look up the two Acts. Section 23 concerns compulsory slaughter of farm animals, while Section 451 exempts the British Museum from tax. *N.B. – Get even with V. somehow.*

Wednesday 19th – V., who all day has been reprehensibly glued to nearby client's T.V. set, brings glad news that Australians must return in sackcloth leaving Ashes with England. Drag attention from final scores to framing of bills for firm's fees. Old Mr D. is slipping; has charged in his time-figures 100 hours of Y.Z. Ltd (fee £500) to poor Miss Z. (fee £5 5s). Diffidently penetrate old Mr D.'s room, with its soporific, Lords'-like atmosphere, and politely hint at injustice to Miss Z.; if, I suggest, scoring had been as lax at the Oval, we might have lost. Old Mr D.'s distress, just visible over piles of time-books and private ledgers, cannot last long in anyone as healthy and upright as old Mr D. He begins to tell me, in a sacerdotal voice, about his operations. This is one penalty of visiting old Mr D. – he tells you about his operations. After a while, foolishly mention own (unfounded) suspicion of ulcer. Recital of gruesome eviscerations switches to old Mr D.'s duodenal, with even more blood-curdling and repulsive surgical details. Ultimately regain own room in muck-sweat and cancel promising dinner appointment.

Saturday 22nd – Up late. Raining. Wash up. Read *The Accountant*. Rain stops, begin to clean car, rain starts. Take X. Ltd file from brief-case, open it, rain stops. Dilemma – X. Ltd or car?

Monday 24th – Monday-morning feeling. Short holiday now dim memory – need another. Contemplate joining correspondents on 'Inhuman Efficiency'; after all, gadget will rouse one with pot of automatic tea (only human required is drinker) so why not a few robots in office? A. (senior clerk) pokes his nose in to announce that B. (junior) has mumps and he (A.) starts *his* holidays on Saturday – and did I know that X. Ltd have put their meeting a week earlier? Man's inhumanity – that's the real trouble.

ORGANIZATION AND ACTIVITIES OF THE ACCOUNTING PROFESSION IN THE UNITED STATES—I

by JOHN L. CAREY

Executive Director, American Institute of Accountants

INTRODUCTION

THE accounting profession in the United States is deeply conscious of its debt to Great Britain. It was largely the leadership of English and Scottish chartered accountants in the late nineteenth century which created the profession in America. Many of the original founders of the American Association of Public Accountants in 1887 were English or Scottish chartered accountants.

These men brought to my country both technical and professional concepts which had already been well developed. They gave the infant accounting profession in the United States a whole set of equipment, wrought in practical experience: theories of accounting and financial reporting, auditing procedures, standards of professional ethics and responsibility, methods of training and qualifying aspirants for entrance to the profession; and, perhaps most important of all, a sense of prestige and self-confidence.

These leaders, so to speak, imported the knowledge and experience of almost half a century in Great Britain. It was fortunate that no tariff excluded this importation. Without it, the accounting profession in the United States would have matured much more slowly than it did.

As time went on, naturally the accountants in the United States had to adapt their original equipment and methods to conform with the political system, with industrial and financial developments, and with the changing social and economic customs of their own country.

In the twenty years between the two world wars, it seems to me, the accounting professions in our two countries paid less attention to each other than they had before, or than they have since 1940. In that middle period they seemed preoccupied with

their own complex problems, resulting from rapid economic and social changes, boom and depression, rising income taxation, and increasing government regulation. From the time when I joined the staff of the American Institute in 1925, up to the time of

World War II, there were relatively infrequent references in *The Accountant*, for example, to American practice, and relatively infrequent references in *The Journal of Accountancy* to what was going on in England. Visits by officers of professional societies in either country to the other were also relatively rare.

Since World War II, however, there has been a great revival of interest in the United States in how things are done in the United Kingdom, and, if I observe accurately, there seems to be a growing interest in England in how things are done in the United States. The 'North American Commentary' in *The Accountant* has its counterpart in frequent editorial and news notes in *The Journal of Accountancy* on professional matters in England, and, indeed, throughout the British Commonwealth.

The American Institute has

been honoured by the presence at its annual meetings since 1946 of presidents and other officers of The Institute of Chartered Accountants and The Society of Incorporated Accountants and Auditors. On the other hand, your Institute has been gracious enough to invite representatives of the American Institute of Accountants to lecture at your summer courses, and to attend other meetings. I am indeed honoured to be in this succession. The attendance of some eighty accountants from the United States at the Sixth International Congress on Accounting at London in 1952 was in itself a demonstration of the active interest of Americans in how the accounting profession outside the United States is dealing with its problems.

This revival of interest on our part is undoubtedly due largely to a psychological shift of Americans generally from an isolationist to an international point



Mr John L. Carey

The first part of an address delivered on July 14th, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford.

of view. Since World War II the American people have recognized more clearly than before that their fortunes are bound up with those of the rest of the world.

But, beyond this, the prospect of a great increase in international investment and trade, and all the talking and thinking about economic unity, suggest the possibilities of actual collaboration of British and American accountants in world-wide auditing engagements, and increasing reliance by each on financial statements prepared by the other. Already there are several international accounting firms with common partners in the United States and England. Many American firms have correspondents in your country. The American Institute's office is asked quite often where a chartered accountant may be found in one part of the world or another who might undertake a part of an engagement for an American firm which has no offices in that region.

All this supports the belief that there may be practical advantages, as well as academic interest, in exchanging information on background, training, qualifications, standards, ethical concepts and technical procedures of the accountants in our two countries.

In such exchanges, each profession may learn from the other, with possible improvement on each side.

This paper is an effort to contribute to the development of mutual understanding between the professions in our two countries.

ORGANIZATION OF THE ACCOUNTING PROFESSION IN THE UNITED STATES

The Constitution of the United States provides that powers not specifically assigned to the Federal Government are reserved to the states. Among the powers retained by the states is what is called the 'police power', which includes the right to protect the public health, safety, or welfare, by licensing and regulating various vocational and professional groups - physicians, dentists, architects, engineers, as well as many non-professional groups. Lawyers generally are regulated by the courts of the states, but they, also, are examined and qualified on a state basis, not a national basis, and by governmental authorities rather than by professional societies.

This general pattern was naturally followed when the first certified public accountant law was enacted in New York State in 1896, and subsequently in all the other forty-seven states, as well as the territories of the United States and the District of Columbia. State laws set forth the educational, experience, and examination requirements for the certified public accountant certificate. The examinations are conducted by examiners appointed by the state governments under authority of those laws.

The American Institute of Accountants and the state societies of certified public accountants are, therefore, not qualifying bodies, except to the

relatively minor extent that they may require education or experience for admission to membership beyond that which may be required by the law of any state.

There is a traditional pride in state rights, and a strong reluctance in one state to imitate another without at least some deviations as an affirmation of independence. As a result, no two of the C.P.A. laws in the several states are exactly alike. The essential structure is similar throughout the country, but there are wide variations in experience and educational requirements, disciplinary powers, and administrative procedures.

Up to 1917 there was also wide variation in the examinations among the states. In that year, the American Institute of Accountants offered a uniform C.P.A. examination to those states which wished to adopt it on a voluntary basis. Gradually state after state accepted the offer, and in 1952 the last state joined the others. In exactly thirty-five years the C.P.A. examination had become completely uniform throughout the country. No other comparable profession has matched this achievement. In a country which is not noted for uniformity, it is amazing that such a result could have been obtained on a wholly voluntary basis. It is, however, a most fortunate result that a uniform examination binds together the profession throughout the United States, and assures at least a substantial uniformity of standard under which the C.P.A. certificate is issued.

Encouraged by this success, the American Institute has sponsored the formation of a Commission on standards of education and experience for certified public accountants, consisting of both educators and practitioners, which it is hoped may develop uniform standards eventually to be adopted by the states. It will take many more years, however, to achieve this objective.

In the earlier days the emphasis was on practical experience in public accounting as a prerequisite for the examination for the C.P.A. certificate. However, the older professions, such as law and medicine, were placing increasing reliance on the training afforded in the professional schools. This trend has influenced the accounting profession also. There has been a rapid development of education in accounting at the college and university level in the United States, and a resulting tendency to substitute education in part for experience as a prerequisite for the C.P.A. certificate. In a few states, candidates for the C.P.A. examination are required to be college graduates. In other states education at the college level may be offered in partial satisfaction of the experience requirement.

Accounting is recognized as a major field of study in approximately 170 colleges and universities in the United States. The New York State authorities have approved the accounting courses in 118 colleges and universities as meeting New York requirements of preliminary education for the C.P.A. certificate.

Public accounting firms today recruit their junior

assistants largely from among the graduates of the accounting departments in the university schools of business administration. From 60 to 70 per cent of the candidates at the C.P.A. examination in recent years have been college graduates. There is, however, no uniformity of subject-matter in the curricula of the accounting courses at the colleges and universities, nor is there any common standard of qualification for teachers of accounting. No central authority has as yet undertaken to appraise and rate the courses given in the various colleges, as has been done in legal and medical education.

Since the professional societies of certified public accountants are purely voluntary associations, not qualifying bodies, no one is compelled to be a member of a professional society. A member may drop out at any time and continue to practice as a certified public accountant. Many certified public accountants, indeed, never join any professional society. The societies, therefore, are impelled to develop programmes for mutual information, assistance and protection, education, development of standards, and other services which will attract and hold members.

The forty-eight state societies of certified public accountants (and those of five additional political subdivisions of the United States) are autonomous and independent. The smallest has less than twenty members, the largest about 6,000. There is no uniformity among them as to dues and assessments, fiscal years, administrative procedures or other matters, except that voting members are limited to certified public accountants (some state societies admit certain classes of non-certified accountants as associates). In general the codes of ethics are substantially uniform, being modelled on the Institute's code.

The American Institute of Accountants, the national organization of certified public accountants, is also autonomous and independent. Applicants for admission must have had at least two years' satisfactory experience, have passed a satisfactory written examination for the C.P.A. certificate, and be of good moral character. Applicants are screened by an admissions committee. The Institute's dues range from \$12.50 to \$40 a year, depending on the length of time the member has held his C.P.A. certificate and whether or not he is engaged in public accounting practice.

At the present time there are about 45,000 certified public accountants in the United States, about 26,000 members of state societies in the aggregate, and about 21,000 members of the American Institute of Accountants.

The United States Department of Labour has estimated that in 1951 there were 90,000 persons employed in the practice of public accounting, including C.P.A.s and others, partners and principals and staff assistants combined.

Some members of the Institute are not members of state societies, and many members of state societies

are not members of the Institute. Most practising certified public accountants, however, are members of both their own state societies and the Institute.

Co-ordination of activities of the state societies and the American Institute of Accountants is greatly facilitated by an Institute by-law, providing that the president of each state society, if he is a member of the Institute, is *ex officio* a member of Council of the Institute during his term of office as president of the state society. This brings into the governing body of the national organization the incumbent president of each of the state organizations. The staff of the Institute includes a state-society-service department, whose duty is to keep the state organizations informed of matters of interest at the national level, receive and consider suggestions of the state societies, endeavour to co-ordinate the activities of the state societies, and assist them in the development and execution of particular projects in which the Institute is interested.

The full-time staff of the American Institute of Accountants now consists of slightly more than 100 persons. Nine of the state societies have employed full-time executives, and in some of these states they are assisted by other staff. For example, in the New York State Society the full-time staff numbers about fourteen. In addition, about fifteen other state societies have employed part-time executives or full-time clerical help.

Many of the state societies have organized chapters in the principal cities within the state, and much of the state society activity is thereby projected on a local basis. In all there are now about 110 local chapter organizations.

PROFESSIONAL ACTIVITIES

A detailed description of the activities of the American Institute of Accountants would hardly justify the space consumed in this paper, but a general indication of the principal areas of activity may be of interest.

First, the Institute concerns itself with professional standards, by administration of the uniform C.P.A. examination, by enforcement of its rules of professional conduct (code of ethics), and by research leading to the issuance of Accounting Research Bulletins and Statements on Auditing Procedure.

Second, the Institute is attempting to assist the profession in the development of accounting personnel of high quality, by providing so-called 'aptitude tests' by which students may obtain an indication of their interest and ability in accounting work; by co-operating with the colleges and universities in improving educational facilities; by encouraging continuing-education programmes for staff accountants; by publicizing the opportunities and rewards in professional accounting among high-school and college students, and by assisting in the placement of graduates of the colleges with public accounting firms. •

Third, the Institute concerns itself with legislation, particularly in the field of taxation, and also in other areas in which accounting and auditing are involved; with the regulations of administrative agencies of the government which are concerned with accounts or audits; with legislation affecting the practice of accounting or the interests of individual accountants, such as the wage-and-hour law and social security, and with state legislation bearing on the qualification or regulation of certified public accountants.

Fourth, the Institute maintains close co-operative working relations with other groups, such as bankers and commercial credit grantors, lawyers, stock exchanges, other accounting organizations (controllers, cost accountants), government agencies such as the Securities and Exchange Commission, and so forth.

Fifth, for the past ten years the Institute has conducted a public relations programme designed to publicize the accounting profession generally, and particularly to inform special groups such as bankers, lawyers, business men and others of the nature and the meaning of the certified public accountant certificate, the nature of the C.P.A.'s work, his ethical and professional responsibilities, and so on.

Sixth, the Institute renders a variety of services to members. It maintains the largest accounting library in the United States, from which members may borrow books and pamphlets. It maintains a technical information service through which members may obtain answers to questions on accounting and auditing, but not taxation. It conducts an annual meeting at which technical papers are presented, discussions are held, and social activities are provided. It co-operates with state organizations in organizing regional meetings of somewhat similar nature, and with universities in holding what are called graduate-study conferences, largely patterned on your own summer course. It has created a group life insurance plan through which members and their staffs may secure insurance at lower rates than otherwise would be available. It maintains a benevolent fund for the assistance of needy members and their families.

Seventh, the Institute produces a variety of publications, principal among which is *The Journal of Accountancy*, largely a technical and professional magazine, whose circulation is now in excess of 60,000. *The C.P.A.* (monthly membership bulletin) as well as *The Journal*, go to every member without charge. There are, in addition, a number of special publications, the newest of which is the *C.P.A. Handbook*, a 2,000-page work devoted to the problems of conducting a public accounting practice.¹ A yearly analysis of some 600 corporate reports, published under the title *Accounting Trends and Techniques* is another recurrent publication. In addition are the membership directory, list of firms represented in the Institute, annual reports, by-laws and rules of

conduct, lists of officers, Council and committees, and the bulletins produced by the technical committees.

Eighth, the Institute attempts to co-ordinate the activities of state societies and the Institute. Reference has already been made to this work.

Ninth comes the administration of the Institute itself: membership promotion and admissions, personnel administration, accounting and auditing, purchasing and housekeeping functions.

A copy of the latest annual report of the American Institute of Accountants is being sent each chartered accountant enrolled in the 1953 summer course, so that additional information may be available to those who desire it.

ACCOUNTING PRACTICE IN THE UNITED STATES

There are about 6,500 public accounting organizations represented in the membership of the American Institute of Accountants (by public accounting organization is meant a separate partnership or an individual practitioner). This includes almost all the reputable and established firms of certified public accountants in the country. Many of the 45,000 C.P.A.s in the United States are employed on the staffs of these firms. Thousands of C.P.A.s are not in public practice at all.

While public accounting organizations cannot be classified accurately, they are generally referred to in the United States as large, medium, or small. There are about twenty firms which might be described as national or multiple-office firms. Some of them maintain offices in every principal city of the United States. While no reliable data as to their size is available, I would guess that among these twenty the largest might include 2,000 persons and the smallest, say, 200.

There are perhaps several hundred so-called medium-sized firms maintaining a few offices, some only one office, including in their organizations from, say, 20 to 100 persons. It is clear that there are approximately 6,000 public accounting organizations including less than 20 persons each. Some 3,000 members of the Institute are listed as individual practitioners—that is, there is no indication of any partner, though many of them employ one or more staff assistants.

The range of interest and the variety in type of practice are wide. The larger firms naturally serve a substantial number of the 3,000 corporations whose securities are listed on stock exchanges. Most of these listed corporations are required to have independent audits by the regulations of the Securities and Exchange Commission, issued pursuant to a provision of the Securities Exchange Act of 1934. But generally, audits are not required by law in the United States. Many of these large listed corporations have subsidiaries and branches, often spread throughout the country and sometimes abroad. Audits of their accounts require public accounting firms of substantial size with offices strategically situated.

¹ Volume II of the *Handbook*, just received, is the subject of a leading article in this issue.

The larger accounting firms, however, also serve many smaller clients.

The medium-sized accounting firms are likely to have as clients many of the substantial closely-held companies in their own areas, whose securities are not listed on stock exchanges, but who may borrow substantial amounts from banks and have substantial lines of commercial credit with suppliers.

The smaller accounting firms and the individual practitioners are more likely to have as clients small corporations, partnerships, and individual proprietors, who are not required to submit audited financial statements to anyone, except occasionally in relation to a bank loan.

Accounting firms of all sizes render a range of services, principally auditing, system and procedures work, and income-tax service. The importance of each type of service varies among the several groups of practitioners; that is, tax work is of comparatively greater interest to the smaller practitioner, and auditing to the larger. What is variously called management service or business advice is of proportionately greater interest to the medium-sized and smaller practitioner than to the larger firm, whose clients can afford to employ experts on a full-time basis.

It seems to be the general opinion that practising

certified public accountants in general have neglected the fields of cost accounting and machine accounting, although there are notable exceptions. If there has been such neglect, it is due undoubtedly to the necessity of devoting principal attention to clients' needs in the field of income taxation, auditing, and general accounting service.

There has been some trend towards specialization in the profession. Larger accounting firms are likely to have partners who devote most of their time to taxation; other partners who devote most of their time to problems of clients registered with the Securities and Exchange Commission, whose special requirements must be carefully observed; others who may specialize in systems and procedures, and others mainly concerned with auditing. Among the medium-sized and smaller firms there has been some noticeable specialization according to industries. Several firms, for example, are known as specialists in hotel, restaurant and club accounting, a few in insurance accounting, some in municipal and governmental accounting, building-and-loan-association accounting, and so on. Specialization is limited, however, and the great majority of the practising C.P.A.s conduct a general practice, offering their services to all comers. (To be continued.)

WEEKLY NOTES

Depreciation of Shipping

Complaints from the shipping industry about the difficulty it experiences in making adequate provision out of profits for replacement of its fleets are now one of the most heard themes from industrialists when they speak of the inequities of company taxation. The answer is often made that shipping is in no greater difficulties than other industries which have to replace expensive capital equipment.

An article in the latest issue of the *National Provincial Bank Review* by Mr D. F. Anderson, President of the Chamber of Shipping, makes an interesting point on this question. He produces figures to show that while it may be true that in principle the industry has a common problem with others, the degree of that problem is much more acute for shipowners than for industrialists elsewhere. Taking the annual reports of the Commissioners of Inland Revenue, he shows that the depreciation allowances as a percentage of the assessments made upon profits were 19 per cent in 1950-51 for industry as a whole, compared with 64 per cent for shipping. In other words, the percentage for shipping was about three and a half times that for industry on the average. This fact, along with the high level of taxation, high shipbuilding costs and running charges is bound to cause a serious shrinkage, he says, in the volume of Britain's merchant fleet.

Record World Oil Output

In the first six months of this year, world oil production continued to increase and reached a new record

level. At 332 million metric tons it easily passed the figure of 312 million metric tons achieved in the first half of 1952. Much of the increase was due to higher production in the United States, but another feature of the world statistics is that the Middle East has now moved up into second place among the world's producing areas, a position which it shares with Latin America. It should not be long, however, before it holds undisputed second place.

As the figure of crude oil production mounts it becomes increasingly evident that oil must soon be selling itself in a buyers' market. Much of the post-war oil refinery programme throughout the world is nearing completion. In this country, for example, the finishing touches are being put to the various catalytic cracking plants and by then a full and flexible range of oils will be available. The same is broadly true elsewhere in Europe. The question then remains of selling it all to transport and industry. Already there are signs that the heavier oils are in plentiful supply. Refined oil must now be sold - whether it be petrol, heavy oils or lubricants.

United States and Sterling Convertibility

Events have a habit of overtaking even the most praiseworthy investigating activities if the investigators take too long over their job. This is likely to be the fate of the Douglas report which was published this week by the President of the United States. Mr Douglas was asked to report on certain aspects of the proposals which the visiting British Ministers put up in Washington early this year when the

discussions on the convertibility of sterling were held.

The report will be generally welcomed in this country, since it couples the urgent need to make sterling convertible with some specific recommendations of what the United States might do to help. Among these are a simplification of customs procedure, encouraging overseas investment and taking steps to help remove violent price fluctuations. Mr Douglas calls for a prompt announcement from the United States Government about its intentions under these headings.

This report has now gone to the commission on foreign economic policy which the President has set up since the meeting in Washington. The commission has a large protectionist element in its membership and it augurs ill for the future of the report that it has gone to the commission from the President with no more than a plea to study it. The climate of opinion has changed since the Washington meeting and the initiative at the American end has now passed from the White House to Congress. This means that, this year in particular, spring blossoms will be hard put to flourish in the autumn.

Agreement on Sugar

International agreements on sugar are inevitably complicated. The preference system in operation within the British Commonwealth and the special arrangements between the United States and Cuba mean that only a proportion of the world crop comes on to what is called the free market. In consequence, international conventions are able to deal only with this residual proportion of the world supply.

This week, a five-year pact has been signed between the representatives of fifty-one countries which links quotas and prices. The agreement comes into force on January 1st, 1954. The maximum quantities which may be sold on the free market in any one year by exporting countries are agreed and maximum and minimum prices for the free market are also laid down. If the world price moves beyond these levels export quotas will be adjusted. In order to keep the benefits of the agreement to the participating countries, signatory nations have agreed to restrict their purchases from non-participating members.

The fixing of maximum and minimum prices introduces a new element of flexibility in post-war schemes for controlling the marketing of commodities.

for British firms to raise their exports to such areas substantially before the end of this year, engineering exports from this country will show a noticeable decline in 1953 compared with 1952. At the moment such exports are running at a lower rate than the average level achieved a year ago.

In the last two years engineering exports from Germany and from the United States have been increasing faster than those from this country. There was a phenomenal expansion in the case of Germany last year which has since levelled off – though it has not gone into a decline. The United States has made steady progress all along. This year, for instance while British exports in this category have declined over the first five months by 5 per cent, and Germany's stayed unchanged, those from the United States advanced by 3 per cent over four months.

In a way it is less surprising that this country should have lost its lead than that people seem surprised by the fact. It is certain that the flow of Marshall Aid, E.R.P., defence loans and point-four assistance have meant dollars for hard-pressed countries – and also orders for American companies. It is also certain that all European countries are under the need to export or die. Competition is thus intense all round. It is some measure of the problem which faces such countries as Britain which is having to adjust its selling methods to a buyers' market.

Higher Home Consumption

In his Budget, the Chancellor of the Exchequer allowed for a significant rise in industrial production, a larger level of stocks and a slightly higher consumption by the public. In the event, the facts of the economic situation had already overtaken him to some extent. Production was already rising and were stocks and the level of consumption of the public when he gave his Budget speech in April.

These facts come out of a recent Treasury statement which shows that home consumption was 3 per cent higher in the first quarter of 1953 than in the same quarter of 1952. There was a 4 per cent increase in food consumption, and one of 5 per cent in sales of clothing and footwear. There was a significant advance in new car registrations. It is exceedingly likely that this upward surge in many sectors went on through the second quarter. It is known that retail sales were buoyant at that time and there was a Coronation to give purchases a fillip.

of higher sale

REVIEWS

**Pyemont's Company Law of South Africa
Sixth Edition**

by M. A. Diemont, Q.C., B.A., LL.B.
assisted by M. A. Boehmke, B.A., LL.B.

(Juta & Co Ltd, Cape Town. 75s net)

The sixth edition of this substantial work incorporates the many important changes in South African company law made by the Companies Amendment Act, 1952. It takes the form of an annotated copy of the original Act (No. 46 of 1926) as amended. The annotations are full and the book, which runs to over 700 pages, is in effect a treatise on the subject as a whole.

South African company legislation has always been largely based on the corresponding English Acts - although there are many important differences, including a number of improvements - and it follows that a work of this size is by no means wholly without use to a practitioner in English company law.

It would have been an advantage if the table of cases had included a note of all the references, but this is a minor criticism of an up-to-date and useful work.

**The South African Companies Acts
by Arthur Suzman, Q.C., B.A., LL.B.(Rand.),
B.C.L.(Oxon.)**

(Juta & Co Ltd, Cape Town, 52s 6d net)

This book does not pretend to be a treatise, and it does not deal with case law. It does, however, perform a useful function for those concerned with South African company law since it includes the text of the Companies Act of 1926 - and changes effected by the thirteen amending Acts - in a convenient consolidated form. Amendments made by the 1952 Act are printed in italics. Such a work as this is a minimum requirement for those who have to deal with an Act containing no fewer than ten Sections 90 - numbered '90', '90 bis', '90 ter', etc. - nine Sections 70 and, in all some 150 additional sections and subsections.

In addition to the Act, the book contains a clearly written summary, extending to 110 pages, of the principal changes effected by the Companies Amendment Acts, of 1950, 1951 and 1952.

**Factory Organization and Management
Third Edition**

by N. F. T. Storer, B.Sc.

(Sir Isaac Pitman & Sons, London)

This is a third
management
describes

since it covers the whole field of industrial organization, it naturally does not discuss in detail the various functions, e.g. production control, progressing, etc., which nowadays have become so important; as a general work, however, it deserves much praise.

For the accountant, plunging for the first time into the unknown world of industry, it will prove an invaluable companion.

**Honour's Principles and Practice of
Profits Insurance
Second Edition**

by W. B. Honour and R. A. Davison, F.P.A.
(N.Z.), A.I.C.A.

(Butterworth & Co (Publishers) Ltd, London. 63s net)

This work, the first edition of which was published in New Zealand, and circulated privately, constitutes a most valuable addition to the literature now available on the subject of profits (or consequential loss) insurance.

The increase in the writing of this form of insurance was for many years comparatively slow, but there was a greater awareness of the valuable part played by such insurance in the field of commerce during the Second World War. This was largely due to the difficulties encountered in the replacement of fire-damaged property, and the resultant development in the volume of policies effected naturally went on after the war because the difficulties continued. With the current demand for the protection that a profits policy gives against the reduction in earnings which can follow upon the occurrence of fire damage to business premises, the representatives of insurance companies and other underwriters have found it essential to hold themselves available for the arrangement of new profits insurances and the revision of old policies to bring them on to up-to-date lines.

Concurrently, business houses desiring the benefits afforded by profits insurance have turned to the accountancy profession for advice on and confirmation of the terms and liability of the insurance cover and - often the insurances being brought 'into action' after fires - in the negotiation of claims against the profits insurers. This book should be welcomed, therefore, by all professional and business men whose work requires a knowledge of the subject's underlying principles and its mode of operation in practice.

The authors supply the answers to many questions which arise during the arrangement of the insurances; they discuss the condition of policies written in the United Kingdom and Australia as well as in New Zealand, and deal fully with the settlement of claims under the insurance contracts.

A most interesting chapter deals with the economics of profits insurance and discusses and stresses the

sequent value of the profits cover. Another chapter examines the various items of expenditure in the accounts in relation to their inclusion as 'standing charges' of the insurance, whilst a further valuable chapter comments fully on special forms of indemnity, e.g. film producers' indemnity policies, gold and tin dredgers' insurances, and policies for commission agents.

This second edition of the book unfortunately does not take into account the development in the insurance of wages by the 'dual basis' method - introduced during 1952 by the British offices - but there is no doubt that the authors are to be warmly congratulated on making this most comprehensive treatise available.

The Purpose and Practice of Motion Study

by Anne G. Shaw, M.A.

(Harlequin Press Co Ltd, Manchester and London, 50s net)

One important phase of the present development of scientific management (in the best sense) is motion study - the method of ascertaining the easiest and most productive movements in industrial and other processes. Motion study, more widely adopted, would, if management and men both were to accept it fully, considerably increase output.

Miss Shaw, who, as a member of Sir Stafford Cripps' team responsible for increasing productivity in the aircraft industry, contributed much towards the application of motion study during the war, has now written what will undoubtedly be a standard text-book. The work, which is well-produced and well-illustrated, is, of course, intended mainly for production executives, but accountants required to familiarize themselves with works processes will also find it useful. Besides, the field for the application of motion study is not confined to productive industry but covers all forms of activity involving physical movement. The appendix to the book, for example, besides giving various examples from industry, also gives instances of its application to kitchen work and to a doctor's clerical work. Many accountants' offices might well benefit from applying the same principles: certainly over the whole field of human activities considerable possibilities of savings in effort could be achieved by a little systematic study of the physical movements concerned.

This book will undoubtedly rank high among authorities on works management.

The Structure and Capacity of Australian Manufacturing Industries

Prepared by the Department of National Development, Australia

(Angus and Robertson, London. £3 net)

This informative volume is a comprehensive study

presentation of a consistent body of systematized information to supplement the official statistical publications.

The preparation of the study, which is divided into seventeen chapters, each covering a broad industrial group, was facilitated by the co-operation of industrialists, Government departments, and various institutes and associations. Every chapter is skilfully subdivided into three parts, viz.: (i) the structure of established manufacturing activities, showing, for each separate activity, the number and size (by employment) of firms engaged, the degree of specialization or integration, the products made, and allied activities; (ii) an outline of capacity, demand, imports, exports, market prospects, development programmes, and availability of materials and labour; (iii) statistical tables of employment, wages and value of production and materials used.

Considering the thousands of products made in the 43,000 factories in Australia, representing some 200 major industries, this study, despite its closely packed pages, cannot and does not claim to be more than a general outline. Nevertheless, it is a well-indexed reference book which industrialists in this country should find both interesting and useful. Accountants will find most interesting the information regarding inter-company relationships, while for the student the book is valuable for comparative studies.

Flexible Budgetary Control and Standard Costs (Cost Control for Management)

by D. F. Evans-Hemming, F.C.W.A.,
F.R.Econ.S.

(Macdonald & Evans Ltd, London. 42s net)

Gradually the view is being more widely held that one of the main functions, if not the most important function, of the industrial accountant, is to enable management to see whether the expected standards of performance are being met or not. While all industrial accounting may be said to have this as its final aim, there are degrees in the extent to which the standards are clearly determined and also integrated in the accounting system. The situation in which such standards are thoroughly developed is typified by a full system of standard costs combined with flexible budgets.

Although a number of good books on the subject of standard costs have been produced in Britain in recent years, until now not one has reached the level of comprehensiveness shown by the better American authorities. For this reason, Mr Evans-Hemming's book, which treats the subject most thoroughly, even

provides a complete set of forms in the famous work which is nationally welcome.

Mr Evans-Hemming's experience as a

based on standard costs. If specific aspects of this work, which can be warmly commended in every way, may be mentioned, particular attention is paid to the method of setting up standards, of the recording of budget data, the presentation of information and the ascertainment of variances. No one who is engaged in the practice of what is now coming to be described as management accounting or indeed who even uses the information provided by an accounting system at all, must be without this book.

Cost Accounting in Industrial Management

by Harry Fisher, F.C.W.A., and David L. Thompson, A.M.I.Prod.E., A.M.I.I.A.

(Gee & Co (Publishers) Ltd, London. 21s)

A noteworthy feature of some post-war cost accounting publications is their increasingly practical approach. In the past, cost accounting, especially in Britain, has been concerned more with methods of ascertaining information than with the way in which this information is put to use, and in following the improved trend this book is particularly welcome. The principles it describes, illuminated by numerous examples and forms, which obviously are based on considerable practical experience, reveal clearly the proper relationship of cost accounting to industrial management.

Of particular interest are the chapters on standard costs and on time and motion study. The book can claim to be a most valuable contribution to the literature of cost accounting and it may be commended without hesitation not only to accountants, but also to all levels of industrial management.

SHORTER NOTICES

COMMERCE AND THE COMMERCIAL OFFICE, by William Campbell, A.C.I.S. Second Edition by H. O. Beecheno, B.COM. (Sir Isaac Pitman & Sons Ltd, London. 30s net.) This is the second edition of a text-book on commercial practice which has the merit of describing how business is conducted in the light of the wider economic basis on which commerce rests. It therefore provides a happy blend of theory and practice, with much more emphasis on the latter. The important practical sections of the book deal with the routine of buying and selling, with office methods and with the financial aspects of all commercial activities. It should be useful to all students.

GUIDE TO GOVERNMENT ORDERS, 1952. H.M.S.O. £4 4s net; NUMERICAL TABLE, S.R. & O. and S.I. H.M.S.O., 7s 6d net; S.I. EFFECTS. H.M.S.O., 5s net. The new edition of the GUIDE TO GOVERNMENT ORDERS includes particulars of Statutory Instruments made in 1952 while those relating to revoked orders and instruments have been deleted. The statements of statutory powers have been amended to record the effect of 1952 legislation. Opportunity has been taken, at the same time, to make certain improvements in the work, particularly in the headings under which statutory powers and the exercise thereof are

classified. The scope of the NUMERICAL TABLE of the Statutory Rules and Orders and Statutory Instruments is self-explanatory. The table lists, by years and registered numbers, every one of the instruments, classified as general in character, which was in operation on December 31st, 1952. S.I. EFFECTS records the effect of Statutory Instruments on previous Statutory Rules and Orders and Statutory Instruments as at December 31st, 1952.

AN INTRODUCTION TO STATISTICAL CALCULATIONS, by J. Mounsey, B.SC.(ECON). (English Universities Press Ltd, London, 15s net.) This book has the aim of illustrating the standard types of calculations necessary in statistical method by means of a large number of examples, and also of providing numerous exercises drawn from a wide range of sources, including the examination papers of many professional bodies and of the University of London. It should, therefore, form a valuable adjunct to the usual text-books and courses, especially for students requiring a thorough grounding in statistical technique.

BASIC RATES OF CAPITAL ALLOWANCES (Annual) for plant machinery and other assets in common use in the engineering industry. (Engineering Industries Association, London, 3s 6d net.) This memorandum is divided into three parts: Part I gives a list of items of plant with the agreed basic rates of wear and tear. Part II is an extract from the Inland Revenue's official list of wear and tear rates, confined to industries which fall within the general description of engineering. Part III explains the arrangements for giving increased rates in certain cases where overtime is worked. There is also a note on the treatment of plant disposed of and the receipts therefor.

Publisher's note: Supplements to both the Eighteenth Edition of Ranking, Spicer and Pegler's EXECUTORSHIP LAW AND ACCOUNTS, dealing with the Intestates Estates Act, 1952, and to the Twentieth Edition of Spicer and Pegler's INCOME TAX AND PROFITS TAX, covering the provisions of the Finance Act, 1953, have been prepared by H. F. L. (Publishers) Ltd. The supplements will be issued with the books at no charge in future, and copies can be obtained by those who already possess these editions by sending the cost of postage, 3d in stamps for each supplement, to the publishers, H.F.L. (Publishers) Ltd, 66 Chandos Place, London, WC2.

RECENT PUBLICATIONS

INCOME TAXES IN THE COMMONWEALTH, Volume II. (Isle of Man, Channel Islands, S. Rhodesia, Colonies, Protectorates etc. and Trust Territories.) v + 878 pp. 8½ × 5½. £1 10s net (by post 31s). H.M.S.O., London.

INTRODUCTION TO INCOME-TAX, 10th edition, by E. D. Fryer, A.A.C.C.A. viii + 99 pp. 7½ × 5. 7s 6d net. Sir Isaac Pitman & Sons, Ltd, London.

PROVINCIAL SALES TAXES, by John F. Due, Professor of Economics, University of Illinois. Canadian Tax Papers. No 7. xii + 231 pp. 9 × 6. \$2.50 net. Canadian Tax Foundation, Toronto.

OTHER PEOPLE'S MONEY by Donald R. Cressey. 191 pp. 8½ × 5½. \$3.00. The Free Press, Glencoe, Illinois.

FINANCE AND COMMERCE

While general firmness continues to be displayed in home sections of stock-markets, business remains selective and highly specialized. Advantage has been taken of the strength of the gilt-edged market for a resumption of Colonial borrowing. Further corporation borrowing is anticipated.

Accountant Criticizes

The directors of The Greyhound Racing Association Trust Ltd have recently been told by Mr R. Gordon Cummings, A.C.A., that the accounts issued by the company are, in his opinion, inadequate. We are reprinting the main part of the accounts this week.

The circumstances that prompted Mr Cummings' criticism are interesting. The accounts were accompanied by notice of a special resolution that the £200,000 of first preference capital should be repaid 'having regard to the strong liquid position of the company and the group'.

The accounts, it will be noted, do not give the group's position. They provide the balance sheet of the main company, and a consolidation of its subsidiaries, excluding the Harringay Arena Ltd - the Harringay balance sheet (not included in our reprint) being given separately. There may be some reason which is considered adequate for publishing the accounts in this way, but the fact remains that shareholders have three balance sheets to take into account.

Mr Cummings spoke at the meeting as a proxy-holder. In a subsequent letter to the Press he expressed his appreciation of this 'liberal, unusual and generous interpretation of Section 136 (1) of the Companies Act as a non-member acting as the "voice" of members'. The point he put forward was that the board should go much further than repaying the first preference. They should, he said, also repay at least one-half and even three-quarters of the second preference.

No Consolidation

Mr Cummings maintained that the group's surplus liquid resources were so great that it could well afford this substantial repayment of the 8 per cent issue; and it was in this connection that his criticism of the accounts arose. There was, he said, no consolidated balance sheet to give a 'simple and clear indication' of the group's very large liquid resources. This was contrary to the spirit of the Companies Act and it was quickly apparent at the meeting, he pointed out, that few shareholders were aware that group liquid assets amounted to almost £1½ million.

'In fact,' said Mr Cummings in his letter, 'when the representative of the auditors tried to argue that the published accounts readily gave all the information quite simply, only two of the substantial number of shareholders present said that they had been able to assess the full position, and one of the two was a

chartered accountant. The remainder were very surprised at and interested in the full facts.'

Mr Cummings gave his computation of the consolidated liquid strength on which he based his proposals. Excluding the Harringay figures for simplicity, but including British Government securities under other investments, current assets at end-March were in round figures: parent, £470,000 and subsidiaries, £1,017,000, making a total of £1,487,000. Adding sinking fund, life and other insurances at or near their surrender value, of £287,000, liquid or near-liquid assets amount to £1,774,000. He excluded trade investments which are mostly holdings in other greyhound companies.

Will Be Considered

Against this total he put £590,000 for liabilities. These included future tax £61,800, deferred repairs £76,600 and unclaimed tote dividends £219,000. The chairman has apparently indicated that it is unlikely the greater part of these dividends will ever have to be paid.

The surplus, Mr Cummings stated, was thus £1,184,000, or £184,000 more than the two preference issues. He admitted that his figure includes the insurances but against this he took account of future tax and the unclaimed tote dividends.

These figures, he claimed, make an indisputable case from the ordinary shareholders' standpoint for the repayment of a substantial part of the 8 per cent preference. The liquid assets, he added, are earning nothing or very much less than 8 per cent.

The chairman has indicated, Mr Cummings states, that following this representation from a qualified accountant, the idea will be considered.

Tax Query

Incidentally, it is interesting to note that such a large amount has remained in the totalizer in unclaimed dividends. As might be expected, the Inland Revenue has cast its eye on this possible source of revenue and contends that for taxation purposes, unclaimed totalizer dividends should be treated as trading receipts six years after they arise notwithstanding, the note to the balance sheet item points out, the continued obligation to pay these dividends. It is not surprising also that the company is resisting the Inland Revenue's contention.

Money Market

Applications for Treasury Bills on August 21st totalled £358,175,000. The whole of the £270 million of Bills offered was allotted and the market, maintaining the bid at £99 8s 2d, received 67 per cent of requirements. The average discount rate was £2 7s 4.25d and this week the offer is raised to £280 million.

THE GREYHOUND RACING ASSOCIATION TRUST LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss and Appropriation Account for the year ended March 31st, 1953

	Year ended March 31st, 1953 £	Year ended March 31st, 1952 £
Trading Profit of the Group (Note 1)	£ 95,389	£ 169,880
Add Dividends and Interest:		
Trade	12,658	13,172
Other	22,221	16,667
Increase in value of Sinking Fund and other Insurances	34,879	29,839
Profit on realization of Fixed Assets	8,436	7,060
	8,736	1,966
	147,440	208,745
Deduct Provision for Taxation on Profits for the year (Note 2):		
Profits Tax (other than in respect of Dividends of the Holding Company charged below)	7,800	12,650
Income Tax 1953-54 (as reduced by £13,459 tax on expenditure charged to Deferred Repairs - 1952-53 £21,133)	61,400	62,530
Current Income Tax payable, less recoverable	29,094	33,592
	98,294	108,772
NET TRADING PROFIT AND INCOME OF THE GROUP FOR THE YEAR	49,146	99,973
Add Loss less Profits carried forward by Subsidiaries	20,687	4,687
Less Provision by Holding Company against its share of the Loss	14,979	3,607
	5,708	1,080
Less Net dividends payable to outside shareholders from current profits	298	486
	5,410	594
NET TRADING PROFIT AND INCOME OF THE HOLDING COMPANY FOR THE YEAR	54,556	100,567
Add Taxation and other Provisions in the Group no longer required (Note 3)	732,479	12,871
Less Written off Holding Company's Trade Investments	178,084	—
	554,395	12,871
Less Net dividends payable therefrom to outside shareholders	945	—
Retained by Subsidiaries:		
Relative to Holding Company's Interest	252,260	—
Relative to Minority Interests	6,461	—
(Of the profits retained, £242,000 has been transferred to General Reserves)	259,666	5,175
	294,729	7,696
	349,285	108,263
Deduct Net Dividends for the year:		
Preference Stocks	41,925	40,950
Proposed Dividend on Ordinary Stock	22,000	26,250
	63,925	—
Profits Tax in respect thereof	21,000	24,000
Transfer to General Reserve	84,925	17,000
	264,000	108,200
	348,925	—
Add Balance brought forward from previous year	360	63
	98,887	98,824
BALANCE CARRIED TO BALANCE SHEET	£99,247	£98,887

Notes

1. The following have been deducted in arriving at the Trading Profit of the Group (£95,389):

	1952-53	1951-52
Provisions for Depreciation and Amortisation ..	£ 61,851	£ 59,975
Loss (1951-52 - Profit) of Harringay Arena Ltd before charging Depreciation (included above) and interest payable	8,338	(7,919)
Interest payable	1,808	1,825
Non-recurring Loss	15,500	—
Provision against an unquoted Investment ..	8,000	—
Provision against Premium on Shares in Subsidiaries	10,929	10,593
Remuneration of Directors of the Holding Company:		
Fees	5,250	5,250
Other Emoluments, less Provision for Pension (£2,129) made in previous years	13,886	21,536
(Directors' Expense Allowances for the three years ended March 31st, 1952, have since been assessed, to United Kingdom income-tax, to the extent of £300 per annum.)		
	£125,562	£91,260

2. In 1952-53 profits tax ceased to be a charge for income-tax purposes. In order to give a truer comparison, the profits tax for 1951-52 is shown after allowing credit for the income-tax relief thereon which has been created as current income-tax.

3. Taxation and other Provisions no longer required are as follows:

	Holding Company £	Subsidiaries £	Total £
Taxation	205,207	413,674	618,881
Rating	—	44,869	44,869
Contingencies	—	47,000	47,000
Other	10,405	11,324	21,729
	£215,612	£516,867	£732,479

FRANCIS S. GENTLE
BRABAZON OF TARA } Directors.

THE GREYHOUND RACING ASSOCIATION TRUST LIMITED

Balance Sheet as at March 31st, 1953

	March 31st, 1952			March 31st, 1952			March 31st, 1952		
	£	£	£	£	£	£	ASSETS	£	£
CAPITAL AND LIABILITIES									
Capital									
£200,000 7 per cent Cumulative First Preference Stock (£1 units)	200,000			200,000			Freehold Properties		
£800,000 8 per cent Cumulative Second Preference Stock (£1 units)	800,000			800,000			At Cost		468,502
£400,000 Ordinary Stock (1s units)	400,000			400,000			Less Provisions		(91,189)
2,000,000 Ordinary Shares of 1s each, authorized but unissued ..	100,000			—					384,254
	1,500,000			1,400,000			Investments in Subsidiary Companies		
							As Consolidated:		
							Shares at Cost	1,078,208	1,078,208
							Less Provisions	163,773	(152,844)
								914,435	
Capital Reserve							Harrington Arena Ltd:		
Share Premium Account less Cost of Issue							Shares, at Cost (Nominal Value £45,023)	44,052	43,985
Revenue Reserves							Debtenture Stock and Debtentures, at Cost (Nominal Value £95,390)	87,217	86,829
General Reserve	685,255			421,255			Accrued Interest on Debtenture Stock and Debtentures (gross)	17,237	17,085
Profit and Loss and Appropriation Account	99,247			98,887				148,506	(54,354)
							Less Provisions	59,571	
								88,935	1,003,370
Current Liabilities							Other Investments		
Sundry Creditors and Accrued Liabilities	8,978			11,246			Trade Investments, at Cost, less Provision (quoted value £102,925)	90,000	268,084
Liability for Dividends Declared or Recommended	43,450			46,725			British Government Securities, at Cost (quoted value £96,706)	101,131	101,131
							Unquoted Investments, at Cost, less Provision	33,548	19,549
								224,679	
Notes.							Sinking Fund and Other Insurances		
(1) There are Contingent Liabilities in respect of (a) Guarantees given in connection with Subsidiary Companies, (b) an undertaking to subscribe £32,500 for additional shares in a Subsidiary Company.							At Surrender Value or Premiums paid thereon (Total Surrender Value £237,420)	239,036	221,357
(2) Westminster Bank Ltd holds Debtentures for £500,000 secured on the Assets of the Company and available for future advances.							Due from Subsidiary Companies		
(3) The Profits Tax appropriate to the Group for which this Company is liable has been provided for in these Accounts to the extent that it is not covered by provisions made in the Accounts of Subsidiary Companies.							As Consolidated:		
							(After taking credit for Dividends Recommended since March 31st, 1953, in respect of the year ended that date)	248,325	72,102
							Harrington Arena Ltd	31,337	—
							Current Assets		
							Sundry Debtors, Deposits and Accrued Revenue	1,796	1,509
							Taxation Recoverable less Payable	177,834	—
							Tax Reserve Certificates	83,525	45,000
							Deposits with Building Societies	50,000	75,000
							Cash at Bankers	55,519	40,904
								368,674	
									£2,499,675 £2,240,858

FRANCIS S. GENTLE, } Directors.
BRABAZON OF TARA }

Sale of Land

The defendant in *Simpson v. Conolly* owed the plaintiff £217 10s 0d. It was agreed in correspondence that the defendant should transfer a piece of land in discharge of the debt. He did not implement his promise but, without entering into a formal contract, allowed the plaintiff to enter into possession. For nearly two years the plaintiff pressed for a contract for the transfer of the land, without success.

Finally the plaintiff informed the defendant that the agreement would be regarded as at an end, and sued for the sum of £217 10s 0d.

Finnemore, J., held that the agreement was not one for the sale of land, but for the discharge of a debt. As the defendant had not fulfilled the agreement within a reasonable time, the plaintiff was entitled to repudiate and claim the amount of the debt (*Law Times*, July 3rd, 1953).

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Gifts Inter Vivos'

SIR, - I was interested to read the leading article in your issue of August 1st on a change of practice in relation to the valuation of *inter vivos* gifts.

May I ask whether a gift of property (made to a wife three years before the death of the donor - her husband) has to be aggregated with the body of the estate for the purpose of estate duty? May I further inquire whether the whole of the duty at the 'aggregated' rate has to be paid by the donee?

If the answers to both questions are in the affirmative it would seem that if one were to receive a gift of money (or property) from an elderly millionaire it would be vitally necessary immediately to deposit at least 80 per cent of the sum involved with the bank against the possibility of the death, within five years of one's benefactor! To spend the money on a world cruise would seem to be imprudent in the extreme!

Yours faithfully,

G. H. C.

[Wives of donors are within the general rule dealing with *inter vivos* gifts. The vulnerable period is five, not three years, and aggregation is applied. In the circumstances outlined by our correspondent it might be imprudent even to accept the gift. Where the gift consists of a minority holding of shares in a private company of which the donor has control, the Revenue seek to impose the assets basis of valuation, under which the estate duty might exceed the market value of the shares. - Editor.]

Debenture Redemption

SIR, - I have read with interest your remarks on this subject under 'Finance and Commerce' in the issue dated August 22nd, regarding Patons & Baldwins Ltd. Assuming as I do, of course, that the facts of the case are as you state, I would just like to comment that they are certainly unusual.

I have been dealing with debenture redemptions of a number of companies for quite a long time and, while trust deeds naturally vary in detail, all those I have had to deal with are identical on one point. This is that the deed requires

price or in purchasing stock for redemption on the market, providing it can be purchased below that price.

In either event the whole of the sum set aside for sinking fund purposes has to be spent in the acquisition of stock and no question of any profit arises if, as is quite frequent, stock is purchased on the market at a favourable figure.

Yours faithfully,

London, WC2. R. C. HETHERINGTON.

Cheque Endorsement

SIR, - Recent correspondence on the subject of cheque endorsement has reminded me of a point which has puzzled me. Perhaps your readers may be interested in the problem.

When a cheque bearing the usual receipt form on the back is paid in, the collecting banker requires the completion of the form over a 2d stamp where the amount is over £2. By what right does he do this? Surely the normal endorsement anywhere on the back of the cheque is all he can legally require in the case of a cheque drawn to order. And yet a cheque so endorsed was recently returned to me as requiring my 'signature over a 2d stamp'.

Was this an 'unconditional order in writing'?

Yours faithfully,

F. O. M.

[Our contributor writes: The Bills of Exchange Act defines the bill of exchange, of which the cheque is a specialized form, and one of its requirements is that the order embodied in it should be unconditional. But the Act does not bar any other kind of instruction or request by the customer to his banker. If the 'cheque' is expressed to be payable only on completion of the receipt on the back, then certainly the order is not unconditional, and the instrument is legally not a cheque. But that is a matter between the banker and his customer: the banker (i.e. the banker on whom the cheque is drawn) is not in privity of contract with the payee of the cheque, and owes a duty only to the drawer, to carry out his instructions.]

this kind of receipt-endorsement cheque to sign the bank's form of indemnity.

The cases have usually turned on whether the order has been *expressed* to be conditional – e.g. 'Pay L. U. Sidate the sum of £10, provided the receipt form hereon is duly signed and stamped'. A nice point might arise on the cheque mentioned in 'F. O. M.'s' letter, which presumably bore no condition on its face and was therefore, *prima facie*, a genuine cheque, but the return of which by the paying bank might be taken to show that, in fact, there was a condition attached. But the point could not be taken as between 'F. O. M.' and the paying bank, who owe him no duty to pay the instrument.

The collecting banker who handles a conditional order knows the possible danger to himself, but is, of course, prepared to accept such an instrument from a reputable customer. He knows too that if he agrees with the payee to treat the instrument as an ordinary cheque, and accept a plain endorsement, the instrument will be returned by the paying banker, and it is obviously his proper function so to advise his customer.

In any case, so far as the completion of the receipt is concerned, the payee is merely being compelled to do what he may properly be called upon to do separately – render a stamped receipt. So, far from there being a substantial cause of complaint, the payee may be saved a postage stamp!]

An Accountants' Christian Fellowship Proposed

SIR, – I would be most grateful for space in your correspondence columns to ask for the comments and support of your readers in regard to the formation of an Accountants' Christian Fellowship.

There are many sound reasons for the existence of such a fellowship, reasons which would apply to any body of Christians who desire more effectively to extend the Kingdom of God. There is one reason, however, which I think applies more particularly to the accountancy profession than to any other, and it is this: since our profession has a large moving population, many members of which never get to know each other or anybody else really well, a Christian fellowship could provide the machinery for putting itinerant accountants, who might care to avail themselves of it, into touch with one another with the least possible delay; thus the lonely witness of individuals might be immeasurably strengthened.

There was, before the war, a similar body known as the Accountants' Prayer Union, membership of which I understand was limited to students and members of the Institute. I suggest that the proposed fellowship should include all members of the accountancy profession, irrespective of the body to which they may belong.

Would any readers who are interested please be good enough to communicate with me, so that I may have some idea of the support available in the event of further action.

Yours faithfully,
Wembley Park, Middlesex. BRUCE JONES.

[We shall be glad to forward to Mr Jones any letters on this subject which readers may like to send us. – Editor]

Smoking in Examination Rooms

SIR, – I should be interested to hear other readers' views on the above subject.

As a non-smoker I have no personal axe to grind, but I think it is very unfair that persons who are in the habit of smoking should be deprived of the advantage of being able to smoke a cigarette just at the particular time when most benefit would be gained from it. In my own experience it is at times when things are going badly that the smoker is most likely to want to 'light up' and also the time when the fact that he cannot do so will react most adversely on him.

Perhaps the percentage of passes would not take a sudden upward bound but at least it would take away some of the discomfort of the examination if smoking was permitted.

Yours faithfully,
Enfield, Middlesex. H. HAIGH.

Accounting for Inflation

SIR, – The letter from Mr T. R. Johnston (published under the above heading in your issue of July 11th) contains some curious arithmetic. The result of the venture quoted is certainly a profit of £200 in terms of £s. Equally certainly it is *not* the equivalent of £(year 5) 100 or £(year 1) 50 in terms of units of purchasing power. £200 profit in year 5 is equivalent to £200 in units of purchasing power in year 5, though in the circumstances quoted it is the equivalent of £100 units of purchasing power in year 1.

I might add that I do not subscribe to Mr Johnston's view of the attitude of the profession to this problem.

Yours faithfully,
Madras, 2. R. G. N. PRICE.

Installation of a Stock Control System

SIR, – I have been approached by a firm of plumbers' merchants to advise on the installation of a simple stock control system.

The business is a small one but numerous different materials are handled. I find that the greatest difficulty is in dealing with the original documents. These are a type of advice note and any number of them may contain the same information in one day. If postings were made direct to the ledger the number of postings would be very large, but on the other hand analysis of the advice notes is also a long process. I wonder if any of your readers have any experience of a reasonably-sized business of this type and if they would care to pass the experience on.

Yours faithfully,
JUST STARTED.

Tyre Retreading: Costing System

SIR, – I would appreciate the benefit of your readers' experience as to the installation of a costing system for a tyre retreading factory. Reference to a text-book on the subject would also be welcomed.

Yours faithfully, A.C.A.

NOTES AND NOTICES

Personal

MESSRS CRASTON THOMSON & ALLISON, Chartered Accountants, of 234 West George Street, Glasgow, C2, announce that they have assumed as a partner Mr JOSEPH WILLIAM SLOAN ALLISON, D.S.C., C.A. Mr ALLISON, who is the son of Mr JOSEPH ALLISON, C.A., commenced his apprenticeship with Messrs McCLELLAND, KER & Co, Chartered Accountants, Glasgow, prior to joining His Majesty's Forces. On his return from Naval service he completed his training with them, but since qualifying has been a member of the staff of his present firm.

MESSRS FORRESTER, BOYD & Co, Chartered Accountants, of 26 South St Mary's Gate, Grimsby, and of Louth, Scunthorpe and Brigg, announce the retirement of their senior partner, Mr ALFRED G. PEARSON, F.C.A., as from May 31st, 1953. The practice will be carried on by the remaining partners under the same title as hitherto.

Professional Note

Mr H. E. Jenkins, A.C.A., Chief Accountant of the West Midlands Division of the National Coal Board, has been appointed Secretary of the Division.

Lord de L'Isle & Dudley, V.C., M.A., A.C.A.

Lord de L'Isle and Dudley, V.C., M.A., A.C.A., H.M. Secretary of State for Air, has been appointed together with Lord Kenyon, J.P., D.L., by the Lords Commissioners of the Treasury as a trustee of the National Portrait Gallery. These appointments are in the place of the late Viscount Ullswater, G.C.B., and the late Sir Reginald Coupland, C.I.E.

Excess Profits Levy

SECTION 56, FINANCE ACT, 1952

The following announcement has been made by the Treasury:

The Treasury have certified under Section 56 of the Finance Act, 1952, as extended by Section 27 (3), Finance Act, 1953, that an increase in output over output at the normal rate of the following minerals is essential in the national interest: anhydrite, gypsum, pyrites, pitchblende, coal, fuller's earth, sand and gravel, silica and moulding sands, chalk, limestone, marl, clay, brick earth, shale, and china stone.

This certificate follows a previous Treasury certificate under Section 56, Finance Act, 1952,

covering certain metals, crude petroleum and asbestos. The metals covered were: chrome, cobalt, columbium, copper, gold, iron, lead, manganese, molybdenum, tantalum, tin, tungsten, vanadium and zinc.

If a body corporate in the excess profits levy period makes profits from an output exceeding its normal rate of output in its trade or business of mining any of these metals, getting crude petroleum from oil wells, or winning from a natural deposit of a wasting nature any of the minerals which are covered by the Treasury certificate, it may, by giving written notice to its Inspector of Taxes before the end of 1954, claim a measure of relief from excess profits levy on the basis laid down by Section 56, Finance Act, 1952, in respect of the normal rate of profit on the additional output.

Treasury regulations are to be made for carrying Section 56, as extended, into effect and for determining what is to be taken as the normal rate of profit and the extent of any additional output.

Census of Distribution Results

The first census of distribution and other services in Great Britain was taken by the Board of Trade in 1951, and the results of the census in respect of retail and service trades have now been published.¹

The census covers Great Britain, excluding Northern Ireland, the Isle of Man and the Channel Islands, and the main part of this first volume is taken up with tables of particulars of the retail and service establishments in the 368 towns of Great Britain having a population of 25,000 or more. For the largest towns information is given in full detail for more than eighty different kinds of business, and even for the smaller towns of between 25,000 and 50,000 inhabitants there are twenty-seven headings, giving a useful outline of the retail and service facilities in the town.

The area tables show that the provision of everyday services for the public is a full-time occupation for 2,400,000 persons, who are helped by nearly 600,000 part-time workers, so that over 3 million persons in all are occupied or partly occupied in shops and other retail businesses, and in establishments such as restaurants, canteens, repair businesses and garages.

¹ *Census of Distribution and Other Services, 1950. Vol. I. Retail and Service Trades - Area Tables. H.M.S.O. 7s 6d net.*

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Incorporated Accountants' South Wales and Monmouthshire District Society

The annual report of the committee of the Incorporated Accountants' South Wales and Monmouthshire District Society, presented at the Society's recent fifty-eighth annual general meeting, records an active year during which a comprehensive programme of lecture meetings was held. The programme covered a wide field of subjects and three of the meetings took the form of group discussions, when problems encountered by members in connection with taxation and general points in practice were considered.

The report shows that a pleasing number of the Society's student members succeeded in the May and November 1952 examinations – fourteen passing the Final and twenty-one the Intermediate.

The Society's annual dinner took place last March, and was attended by a number of distinguished guests, while other social activities were two golf meetings – one held in the autumn and one in the spring.

The officers of the Society for the year 1953–54 have been elected as follows:

President: Mr F. M. Forster, F.S.A.A. (Newport).

Vice-President: Mr W. W. Stanley, A.S.A.A. (Cardiff).

Hon. Secretary: Mr Tudor Davies, F.S.A.A., Andrews Buildings, 67 Queen Street, Cardiff.

The Institute of Cost and Works Accountants AN EXAMINATION ACHIEVEMENT

Last week we published the results of the June 1953 Final examination of the Institute of Cost and Works Accountants, and in a 'Weekly Note' we mentioned that the First Place and 'S. Laurence Gill' Prize had been won by Mr James Fouldes, of Sheffield. Our attention has since been drawn to the fact that, only six months previously, in the December 1952 examinations, Mr Fouldes was placed first in the Intermediate.

Our Contemporaries

THE ACCOUNTANTS' JOURNAL (Wellington.) (June.)
'Accountants Working Papers' – Statement by the Council of the New Zealand Society of Accountants.

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (June.)
'Initial Depreciation Allowances' by G. T. Webb, B.COM., A.A.S.A.

THE ACCOUNTING REVIEW. (New York.) (July.)

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (August.)

SECRETARIES CHRONICLE. (August.)

LOCAL GOVERNMENT FINANCE. (August.)

THE BANKER. (August.) 'How flexible is Monetary Policy?'

THE ACCOUNTANTS JOURNAL. (August.)

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 1ST, 1928

The Money Market

NOTE.—The figures for the preceding Wednesday are given in the first column.

WEDNESDAY, AUGUST 29, 1928

	%	%		%	%
	Aug. 22	Aug. 29		Aug. 22	Aug. 29
Bank Rate ..	4½	4½	2 months Bills	4½	4½
Banks Dept. ..	2½	2½	3 months Bills	4½	4½
Daily Loans ..	4½—3½	4½—3½	4 months Bills	4½	4½
Weekly Loans ..	3½	3½	6 months Bills	4½	4½

RATES OF EXCHANGE

	Aug. 22	Aug. 29		Aug. 22	Aug. 29
Paris ..	124.22½	124.27½	Prague ..	163 ½	163 ½
New York ..	4.85½	4.85½	Vienna ..	34.42½	34.42½
Montreal ..	4.85½	4.84½	Warsaw ..	43.28½	43½
Berlin ..	20.37½	20.35½	Bombay ..	18 56½d	18 5½d
Brussels ..	34.89½	34.90½	Calcutta ..	18 56½d	18 5½d
Milan ..	92.67½	92.55½	Hongkong ..	28 0½d	28 0½d
Amsterdam ..	12.10 ¾	12.10 ¾	Shanghai ..	28 8½d	28 8½d
Berne ..	25.20	25.20	Kobe ..	18 10 ¾d	18 10 ¾d
Copenhagen ..	18.18½	18.18½	Valparaiso ..	39.64	39.63
Oslo ..	18.19	18.18½	Buenos Aires	47½d	47½d
Stockholm ..	18.13½	18.12½	M. Video ..	50½d	50½d
Athens ..	375	375	Rio ..	5½d	5½d
Finland ..	192½	192½	Budapest ..	27.85	27.84
Lisbon ..	107½	107½	Bukharest ..	794½	795½
Madrid ..	29.20	29.21½	Constantinople	941	932½

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF AUGUST 31ST, 1878

A Note in Passing

The 87th Section

The 87th section of the Bankruptcy Act is one around which many controversies have from time to time arisen. Some hold that its provisions should be interpreted rigidly, and that no debtor for more than £50 should be allowed to reduce his claim in order to come within their meaning. Others assert that the section is intended to prevent an execution from being levied for a sum larger than £50 for the reason that except for such a provision it would be possible for a large creditor to seize all a debtor possessed, and so leave the other creditors portionless. Hence, it is argued, if a creditor chooses to reduce his claim so as to bring it within the prescribed limit he has a perfect right to avail himself of the 87th section. That which imparts the "remarkable aspect" to the case of Mr. Page in *re James B. King* is the payment of the guinea (presumably by the debtor) which served so opportunely to reduce the execution debt below £50. Of course anything like collusion between the execution creditor and the debtor could not be tolerated.

MOTOR — FIRE — CONSEQUENTIAL LOSS
MOTOR UNION INSURANCE COMPANY **L^{TD}**
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CONTENTS

Leading Article	<i>Page</i>
Export Credits	269
The Finance Act, 1953 - V	271
Light on Co-operatives	273
Special Articles	
In-Patient Costing in Hospitals by <i>J. C. Denyer, A.C.I.S., A.H.A.</i>	274
The Provincial Accountant - II by <i>John Unett, A.C.A.</i>	276
Lecture	
Organization and Activities of the Accounting Profession in the United States - II by <i>John L. Carey, Executive Director, American Institute of Accountants</i>	277
Weekly Notes	
The Association's Examination Results - National Income and Expenditure, 1946-52 - Personal Savings in 1952 - Capital Formation in Industry - Industrial Buoyancy Continues	282
Finance and Commerce	
Edgar Allen & Co - Money Market	284
Correspondence	
Auditing Tests - Reversing the Balance Sheet - Stamped Receipts - Partnership Changes and Income-tax - Debenture Redemption - Accountants' Christian Fellowship - Smoking in Examination Rooms - Professional Discipline	287
Taxation Cases	289
Notes and Notices	
Personal - Assistant Official Receiver Appointed - The Institute of Chartered Accountants in Ireland - 'Settlements and Tax' - Taxation Lectures - The Actuaries' Investment Index - <i>Annotated Tax Cases</i> - Diploma in Commerce - Overseas Economic Survey - Seventy-five Years Ago - Our Contemporaries	292
The Association of Certified and Corporate Accountants	
Results of the Examinations held in June 1953	294

EXPORT CREDITS

TWO features of the financing of the export trade - export credits and export credit insurance - are of particular interest at the present time. The historical development of these aids to exporters is of some general interest, but their present position and future prospects are of even greater importance and it is on these aspects that the succeeding description mainly concentrates.

Perhaps the four most significant factors in gaining export business nowadays are price, quality, delivery period and credit facilities available, and the last of these may not always be the least important. The granting of credit terms to overseas buyers is naturally enough linked with exchange control; and exporters who wish to grant credit terms to foreign customers must seek permission before so doing. In the early months of 1952, when the Government was greatly concerned both to reduce inflationary pressure at home and speculation against sterling abroad, the exchange control authorities began to impose severe restrictions on the credit facilities previously granted by British banks to overseas buyers. This procedure was tantamount to the speeding-up of payments for exports, particularly from the sterling area. That it met with a substantial measure of success is shown by the very favourable balance of payments returns for 1952 and the credit of £170 million achieved in that year was much greater than the changes in Britain's visible trade, as shown in the trade accounts, would have led one to expect.

Since the middle of 1952 a change has come over Britain's export markets and overseas buyers have become much more discriminating as regards price, quality, delivery and credit terms. Some buyers of capital goods are now demanding extravagantly long credit facilities - up to four or five years in some cases. These would be quite impossible to grant under the policy laid down early in 1952 and it became apparent to the authorities that unless some relaxation of this policy was allowed export business would be lost. Accordingly, the PRESIDENT OF THE BOARD OF TRADE announced during one of the Budget debates that the Government had recently reviewed exchange control policy in order to ensure that, subject to balance of payments considerations, no unnecessary obstacles are put in the way of exporters. As a result of this review exporters have been assured that they will be given greater freedom in granting credit terms to overseas buyers but they will still have to apply for the necessary permission. Most people will agree that if the capital market is able to provide funds for long periods on an economic basis there are obvious reasons why it should be allowed to do so. But it would be quite a different thing for the State to subsidize export credits.

So far, however, this has not seriously been considered.

The granting of export credits naturally involves risks on the part of the exporter. There was always the risk that the importer might become insolvent. Nowadays, however, perhaps the greatest risk is that the exchange control authorities in the importing country will not grant the necessary currency to pay for the imports for which credit has already been given. Some form of insurance against such risks is therefore an obvious need and for twenty-five years now the Export Credits Guarantee Department has attempted to meet this need. As time has elapsed export credit insurance in Britain has, to all intents and purposes, become a monopoly of the Government. British practice in this respect is at variance with that of most other countries. The Trade Indemnity Company, part of whose capital is held by some of the major insurance companies, concentrates almost entirely on the coverage of risks which arise from internal trading. The risks covered by this concern amounted to £600 million in 1952 and its total premium income to over £1 million.

The E.C.G.D. has for some time declined to insure against the political and transfer risks run by exporters unless the would-be insurers also cover their commercial risks with the department. It could be argued that this practice has permitted the E.C.G.D. to offer better terms and lower premiums than might otherwise have been possible; on the other hand, like all Government bodies, it operates by consultation and through committees and conferences. This method has its disadvantages as well as its benefits. In the case of the E.C.G.D., an advisory council which includes eminent bankers and businessmen is closely associated with the work and policy of the department. In a number of European countries the State and private enterprise combine in covering export credit risks. In some instances the division of labour takes the form of an

standard export credit policies are of the order of £400 million. In addition, there is an appreciable outstanding liability in respect of special policies. From the time of its inception in 1928 to the end of 1951, the department made profits amounting to over £11 million. But as the Board of Trade revealed in presenting a supplementary estimate in January last, heavy losses had been incurred in 1952. This was the first time that the Treasury had openly been called upon to provide funds to meet such losses, the scale of which was surprising – the supplementary estimate being for more than £14½ million, i.e. more than the total profits made in the first twenty-four years of the department's existence.

It is common knowledge that these losses have been the result of claims on policies accruing from trade with Brazil. For some years now Brazil's shortage of sterling has been growing and during the past two years the Brazilian Government has denied importers the sterling necessary to pay for the goods already imported. The British exporters hit by these moves have made their claims against the E.C.G.D., to the tune of £15 million in 1952–53, and it looks as if substantial claims will have to be met in the current financial year – in spite of the agreement just reached with Brazil. The operations of the department, in so far as Brazilian trade is concerned, have met with some criticism. When it became apparent in early 1951 that Brazilian importers were defaulting, the department raised its premium on Brazilian business from less than 1 per cent to 2 per cent. This had the effect of reducing business, but a temporary improvement in Brazilian payments caused the rate to be brought down to its original level. This continued until May of last year in spite of the obvious deterioration in Brazil's balance of payments position. At this point the department refused to underwrite any new business with Brazil. It is not unlikely that had the deterrent effect of higher premiums been used more freely losses would have been much less. However, in

When the period in question is less than a year the amounts under (a) (ii) and under (b) (ii) and (b) (iii) are to be proportionately reduced. When the period exceeds a year, the amounts under (a) (ii) and under (b) (ii) and (b) (iii) are proportionately increased; the income and charges of another year of assessment are not brought into account.

It needs to be stressed that the above computation must be made exclusive of any Section 20 adjustment.

It also needs to be stressed on the other hand that if the subvention payment in question qualifies as a trading expense of the payer, it is not necessarily as a trading expense of the corresponding period.

Example:

A. Ltd and B. Ltd have been 'associated' for some years. Their Case I computations for the periods shown are as follows (ignoring Section 20):

A. Ltd. Profit for year to March 31st, 1954..	£ 5,000
B. Ltd. Loss for year to April 30th, 1954..	£ 6,000

On November 1st, 1954, A. Ltd makes a subvention payment of £6,000 to B. Ltd in respect of the year to April 30th, 1954. The Inland Revenue direct that the year to March 31st, 1954, is A. Ltd's corresponding period.

Neither company has other income sources, capital allowances or charges.

Applying the Section 20 (3) limit, the £6,000 subvention payment is scaled down to £5,000, being the amount of A. Ltd's surplus for its corresponding period. This £5,000 is then treated as a trading receipt by B. Ltd on April 30th, 1954, and an expense incurred by A. Ltd on the same day. It is accordingly applied in reduction of A. Ltd's profit for the year to March 31st, 1955; reducing that profit from £10,000 to £5,000. It has no effect on the profit of the corresponding period.

Section 20 (7) (a): Paying Company's Accounting Period affecting two or more Tax Years

It is the intention of Section 20 to give to the subvention-paying company relief once only in respect of a subvention payment. This will follow automatically where the 'corresponding period' of that company constitutes or forms part of an accounting period which forms the basis of assessment for one tax year only. In some circumstances, however, this will not be the case. In the early years of a company's business the profit of one accounting period may enter into the computation of assessments for more than one year. This will also happen where the accounting period covers more than twelve months. To prevent the company from obtaining a double (or possibly a treble) benefit, Section 20 (7)

requires an adjustment of the *assessments* for the years after the first

'as may be necessary to secure that (so far as may be) the aggregate amount of the assessments made on the company is reduced by an amount neither more nor less than the subvention payment'.

Example:

A. Ltd began trading on July 6th, 1953. First accounts made up to July 5th, 1954. Adjusted profit (before deducting subvention payment), £10,000.

A. Ltd, before April 6th, 1956, makes a subvention payment of £1,000 to an associated company, B. Ltd, in respect of that company's loss for the year ended July 5th, 1954. The requirements of Section 20 (other than Section 20 (7)), being satisfied, A. Ltd's adjusted profit (under Section 20) is accordingly £10,000 - £1,000 = £9,000.

1953-54 assessment, £9,000 × 9/12ths = £6,750.

This being the first year it is immune from adjustment under Section 20 (7).

1954-55 assessment (before Section 20 (7) adjustment) (first full year's trading), £9,000.

To leave the 1954-55 assessment at £9,000 would mean a total relief for the subvention payment of £1,750, i.e.

1953-54, £750 + 1954-55, £1,000.

The obvious Section 20 (7) adjustment is therefore to increase the 1954-55 assessment from £9,000 to £9,750.

Section 20 (7) (b): Paying Company's Accounting Period not affecting any Tax Year

Section 20 (7) (b) deals with the converse case of the paying company's corresponding period not forming the basis of assessment for any year. This normally arises where the company ceases trading shortly after the close of that period. Section 20 (7) directs an adjustment in the terms already quoted, except that the adjustment is to be for the year next following the end of the period in question.

Example:

X. Ltd permanently ceases to trade on July 5th, 1954. Adjusted profits (before allowing subvention payment) are as follows:

Year ended April 5th, 1953	£ 12,000
" " " " 1954	10,000
Three months ended July 5th, 1954	2,000

Before it ceased trading, X. Ltd made a subvention payment of £3,000 to an associated company, Y. Ltd, in respect of a loss incurred by Y. Ltd in the year to April 5th, 1954. Consequently X. Ltd's profit for that year is reduced by Section 20 from £10,000 to £7,000. However, the assessments are as follows:

1953-54 (Preceding year basis)	£ 12,000
1954-55 (Current year basis)	2,000

Section 20 relief would normally be excluded since the year to April 5th, 1954, does not form a basis period of any year. The Section 20 (7) (b) adjustment is confined to the tax year next following that period, i.e. the year 1954-55. The obvious adjustment here then is to set off £2,000 of the £3,000 subvention payment against the £2,000 assessment for 1954-55. Relief in respect of the balance of £1,000 is lost, although the payee company will normally bear tax on it.

(To be continued.)

LIGHT ON CO-OPERATIVES

THE coveted privilege of limited liability is not the monopoly of companies registered under the successive Companies Acts. The ubiquitous 'co-operative society', which enjoys the privilege (and includes the word 'limited' in its name), does so by virtue of registration under the Industrial and Provident Societies Act, 1893. That this Act provides a convenient, if lesser-known, means of limiting liability, is emphasized by the fact that of the 6,000 odd societies in existence in Great Britain at the end of 1952, less than 1,300 were of the retail, wholesale, or productive types for which the legislative predecessor of the Act was originally designed. This and a host of other interesting facts appear in Part 3 of the Report of the Registrar of Friendly Societies for 1952, just published.¹

The manner in which co-operative societies acquired their legislative name of 'industrial and provident societies' and came under the aegis of an official with such a title as the Registrar of Friendly Societies is an interesting piece of legal history which cannot be gone into here. This is one of the less spectacular branches of the law with which few are acquainted.

The present issue of Part 3 of the Registrar's report is the first to be published since 1937 and it roams at will over the intervening fifteen years. During that period the membership of co-operative supply societies of the familiar type increased from 7,746,000 to 10,887,000, their annual sales from £232 million to £702 million, and their share capital from £142 million to £224 million. At the same time, dividends on sales fell from an average of 1s 10½d to 1s per £, and share interest from 3·5 to 2·7 per cent.

As already stated, the above type of society is in the minority in numbers, if not in importance. At the end of 1952 there were 3,303 so-called 'business societies', of which the majority were social clubs. There were also 668 land and housing societies, 11 general development societies, and 1,107 agricultural and fishing societies.

The total number of societies on the register might have been much higher but for the passing of the Prevention of Fraud (Investments) Acts, 1939. It should not be assumed from the short

title of this Act that the registrations would have been a fraud in the ordinary sense. The Act was dealing mainly with other matters but it took the opportunity of prohibiting the registration of societies which were neither 'bona fide co-operative societies' nor carried on in some way for the benefit of the community. This step was taken because some astute promoters of investment and property trusts had discovered that by registering an industrial and provident society they could 'attract and use public money with fewer inhibitions than under the Companies Act'. The Act does not define 'bona fide co-operative society'; but the Registrar does – in a memorandum, the definition portion of which is reproduced in the report. It certainly cuts down the statutory definition of an industrial and provident society, which is 'a society for carrying on any industries, businesses, or trades specified in or authorized by its rules, whether wholesale or retail, and including dealings of any description with land'.

Like companies, industrial and provident societies are subject to provisions for official investigation (called 'inspections'), the Registrar taking the place of the Board of Trade. The report gives extensive accounts of three such inspections. None of them concerned a society carrying on a trade; two were clubs and one a housing society. The reports of the individual inspectors make interesting reading on how societies ought and ought not to be run, with illuminating examples of insufficient audit.

Five cases of defalcations by officials are discussed in the report, but it is clear that these were not the only ones since they cover a total of only £22,000 odd, whereas the annual figure of defalcations seems to be of this order.

Industrial and provident societies share with companies a liability to make annual returns which are available for public inspection. That some societies find this a burden is emphasized by the 593 summonses taken out by the Registrar to enforce compliance. As with companies, non-compliance with this duty formed by far the most frequent offence against the regulations. Even so, for over 6,000 societies and fifteen years, the figure of 593 really reflects credit on the general administration of the societies.

¹ H.M.S.O. 4s 6d net.

IN-PATIENT COSTING IN HOSPITALS

by J. C. DENYER, A.C.I.S., A.H.A.

Lecturer in Hospital and Health Services at Croydon Polytechnic

AT first sight, in-patient costing appears a simple affair; the layman might be excused who thought it was only a matter of dividing the total expenditure by the number of patient-days, to produce a cost per patient-day. In fact, the more closely it is investigated, the more complex it appears; but with the hospitals costing the country about £280 million in the financial year to March 1953, it is obvious that some advanced method of comparative costing is needed.

Hospitals are unlike factories in many respects, and a strictly commercial standpoint cannot therefore be adopted. This is not to deny the intrinsic qualities of a commercial approach, but to emphasize the differences, where modifications must be made and margins allowed.

The raw materials of a hospital are human beings, and the handling of them is by human beings. In many respects, to attempt the costing of such activities is like trying to cost the work of a professional man: the personal element is so strong that many allowances have to be made, and even then caution must be used in dealing with hard and fast figures.

Departmental Costs

One of the main stumbling blocks is the departmental aspect of hospitals; where in a business concern it may be possible to divide the accounts and run them on a departmental basis, this is extremely difficult in hospitals, where little direct costing can be made.

All services in hospitals are shared between in-patients and out-patients; and X-ray, physiotherapy, and pathological services are not only provided for all patients, but nursing, portering, domestic labour (to quote common examples), are often shared between different departments and between in-patients and out-patients. The dispensing of drugs and medicines has only to be considered for one to realize the immensity of the detailed costing involved in attempting departmental costs.

The reports of the Committee of Regional Hospital Board Treasurers, of the Nuffield Provincial Hospitals Trust and King Edward's Hospital Fund are now being considered: a common theme is the keeping of departmental accounts, which it is recognized must predominate in any scheme of hospital costing.

Problems involved in such departmental cost-

ing are so numerous that it is not proposed to deal with them here beyond mentioning their incidence and their importance. In the group of hospitals in which the writer is employed, two small-sized hospitals would be quite comparable, apart from the fact that contrary to expectation (or contrary to reason) one of the hospitals has an advanced physiotherapy department as big, if not bigger than can be found in hospitals twenty times its size. The other hospital of comparable size has a physiotherapy department which is more in keeping with its size.

Exclusion of departmental costs to ascertain 'pure' in-patient costing must obviously be the first consideration. The existing method of taking five out-patient attendances as equivalent to one in-patient day is both inaccurate and inadvisable.

Necessary Statistics

To obtain an in-patient costing it is necessary to know the average bed complement, i.e. regardless of whether all the beds are staffed. This figure must be taken into account, for example, where a hospital may be supporting half of its number of beds because of the inability to find staff, and while feeding and staff costs will not arise, there are almost certain to be items of maintenance of buildings for the empty beds.

Secondly, the average daily number of staffed beds will be reflective of the maximum bed occupancy that can be achieved; and thirdly, the average daily number of occupied beds, being the actual patient costs.

Then, the average percentage occupation of available staffed beds will be a weighted figure representing the usage made of the staffed beds.

Lastly is required the 'turnover', or the number of cases per bed in the course of a year, and for this figure may be taken the average number of discharges and deaths per occupied bed. This figure is important, for while the total costs of one hospital may be higher than those of another hospital, if the first hospital has a greater turnover of patients, the overall cost of treating each patient might be lower than in the second hospital.

These figures by themselves might be sufficient for a small-sized hospital of under 100 beds, but for a larger multi-purpose hospital it is necessary to go further in the statistical requirements. For example, there may be a maternity ward where the average stay is about ten days, which

contrasts with the average stay in a chronic sick ward of six months. It is necessary, therefore, to obtain the various weightings (i.e. number of patients, and the average stay per patient) to the different in-patient departments or wards of a hospital, which for purposes of approximation might be maternity, tuberculosis, mental, chronic, medical, and surgical departments.

Bed Occupancy

The extent to which a high bed occupancy is maintained will tend to reduce the cost per patient-day, and it is fatally easy to deduce from the comparative statistics that a hospital should have a higher bed occupancy than it in fact has, when making endeavours to reduce its average in-patient cost.

The following are some of the reasons which affect bed occupancy, and which have to be taken into account when considering this important figure:

The allocation of beds to various specialities may in itself be a stumbling block to high bed occupancy: beds may lie empty in one specialist ward, and there is no power by which they can be filled by patients of another speciality. Strict bed allocations are administratively tidy but may seriously reduce bed occupancy.

Faulty allocation of beds may mean that too many beds are given to (say) medical patients, while too few are allocated to surgical cases.

Where strict allocations are adhered to, the continued sickness or annual leave of certain consultants may reduce the occupancy. The 1949 optimism of the Ministry, whereby it was left to specialists to provide their own *locum tenens* has not worked out in practice.

Administrative control, whether it be by a lay or a medical administrator, needs some system, such as the bed-board, as advocated by the King Edward's Fund in its report on medical records made in 1948.

The method of filling beds will depend to a great extent on the co-operation of the medical staff. For example, where the discharge of a patient can be forecast – even if it be only one or two days ahead, and this is quite possible for most surgical cases – then the easier it is to call in another patient to keep the bed occupied.

While it is undesirable on social grounds that patients should be given insufficient notice of the availability of beds, medical patients *can* be admitted on a telegraphic notification, and separate hospital waiting lists can be kept of patients who are on the telephone and who agree to come into

The extent to which bed occupancy is lost by wards being in quarantine owing to infectious disease: this has particular reference to children's wards, and it may be worth spending money on additional partitioning if in the medical opinion it would reduce the incidence of quarantine.

Some allocations of beds cannot be used continuously. Thus, where tonsil operations are performed by the guillotine method, the beds available might only be used for an overnight stay for patients who are operated on, at sessions held perhaps twice a week. Similarly, a sick-staff ward must be of a sufficient size to take the maximum number of sick staff, and yet it may be half empty for most of the year.

Operations

While the number of cases treated must be considered equally with the average bed occupancy, from a medical point of view there may be yet another aspect to consider. One patient may require a major operation which takes about two hours to perform, while several patients might be treated in the same time where only minor operations are performed.

The major operative case may need six times as long a stay in hospital as most minor operations, and it might, therefore, be asserted that the number of major, intermediate, and minor operations performed should also be taken into account.

While it is not suggested here that costing should be further modified by this consideration, it is mentioned because it is a factor which is important in its effect on 'turnover' of patients. As an illustration of the difficulty of giving effect to any figures of operations, the writer has had a surgeon's opinion that the lists of operations classified as major, intermediate, and minor, in the Pay Bed Regulations (1953) are far from how he would classify them. Some of those listed as minor, he says, may be – or become – major ones, and some of those included as major are in practice quite minor!

Action

What action can be taken to increase bed occupancy or 'turnover' figures? Some administrative steps can be taken by the committee of management, but where it is so closely concerned with the care and treatment of patients, it becomes a medical matter, which makes it a very delicate matter when it comes to taking action.

It is evident that there is need for close liaison

THE PROVINCIAL ACCOUNTANT—II AS BOOK-KEEPER

by JOHN UNETT, A.C.A.

IT might not be easy to start a book-keeping bureau from scratch because one of the essentials would be that those in charge should be well known in their locality both for integrity and competence. But the established practice is in itself a guarantee, and it would not be so difficult to build up such a service on a foundation of that kind. Indeed, I see no reason why, in years to come, most of the day-to-day book-keeping of small businesses should not be in the hands of professional book-keepers.

From the practical point of view too it would be easier. Offices, for instance, could be set aside in part of the firm's premises. Staff could be loaned from the firm as required, or alternatively, transferred to the new undertaking and kept occupied by audit work, or normal accounting work passed on from the existing practice. Once it got going, I have an idea that it would be like a snowball rolling down a hill. We already have secretarial services and typewriting agencies. In time we may have book-keeping bureaux which will look after all the work in a district; all the work, that is to say, that is small enough to be handled by such a bureau.

There will be a limit to the fee that a client will pay. Roughly it will be the wages of a first-class accountant and one or two clerks. A business is not going to employ an outside firm if for the same fee it can have a staff of its own. In other words, the bureau must offer its services cheaper than they can be obtained in the open market.

When a business is considering this question of costs the fee is not the only matter to be taken into account. It is important to bear in mind the considerable advantages in employing such a bureau. No worry about illness, for instance. Often a small business is crippled because its only clerk, or one of two, goes ill. His or her work is left simply because there is no alternative. Of course the staff of a book-keeping bureau will also fall ill now and then, but it should be large enough for the work to continue without interruption. The same situation arises over holidays. As far as the client is concerned he has a permanent book-keeping staff that never needs a holiday and never goes sick. Nor does he

leave to get married, or move to another job at a better wage. It never grows old; will never need a pension; has no sick relatives and no personal problems. The fee is inclusive: all risks are carried by the bureau.

But the most valuable part about such a scheme from the client's point of view is that he has at his disposal experience that he could never afford in the ordinary way. For a fee of a few guineas he can obtain the advice of a £1,000 a year man. It is true that he can at present consult his accountant without having to hand over control of all his accounting, but the advice that the accountant is able to give will be more valuable if he is, in fact, chief accountant of that business watching it every day, intimately in touch with all its problems and plans.

This is service of a kind that has never been offered to the small man. He has stumbled along employing a series of girls just left school, many of whom only stay a few months because they cannot stand it any longer. The firm's system is muddled because everyone who touches it is an amateur. It is unreliable, too elaborate, and always in arrears.

From the accountant's point of view the task resolves itself into one of organization. As far as possible he will standardize everything, particularly ledgers and day-books. Mechanical aids will be indispensable, and care will have to be taken that documents from different clients do not become mixed. It needs care, but it is not difficult.

The most important factor is speed. The client must be able to get in touch immediately with someone who can answer his question. The service offered must be not only better than he could obtain from a staff of his own but far, far better. The work must always be up to date. Excuses should not be tolerated because there should be nothing to excuse. At the end of a client's financial year it should only be a matter of hours before the accounts are in draft. Then indeed the accountant can act as adviser with all the figures before him fresh and crisp from the bureau.

To achieve that is not easy. It demands not only close, but constant attention. But on it depends success.

(To be concluded.)

ORGANIZATION AND ACTIVITIES OF THE ACCOUNTING PROFESSION IN THE UNITED STATES—II

by JOHN L. CAREY

Executive Director, American Institute of Accountants

EVOLUTION OF PROFESSIONAL STANDARDS

Accounting Principles

Prior to 1930, committees of the American Institute of Accountants and other professional accounting societies had from time to time made pronouncements on various questions of accounting principle, but the pronouncements were fragmentary, sporadic, and frequently little heeded. Progress was left largely to the trial-and-error method. University professors of accounting, however, were vocal in the demand for some effort on the part of the profession to develop an integrated body of accounting principles. This demand was sharpened by the stock-market crash in 1929, as a result of which public attention was directed by many critics to inadequacies of published financial statements of many corporations. The New York Stock Exchange requested the American Institute of Accountants to appoint a committee to work with it towards improvement of financial reporting. A correspondence ensued which resulted in the statement of five basic principles of accounting, and the development of a standard form of independent auditor's report or certificate. At that time, the Stock Exchange first required the submission of independently audited financial statements by all listed companies. In 1933 and 1934 the Securities Act and the Securities Exchange Act were passed by Congress, the latter Act providing for the creation of a Securities and Exchange Commission with power to require submission of financial statements by registered companies, to require independent audits of such financial statements, and to suspend or expel accountants from practice before the Commission for unprofessional conduct. This legislation also imposed heavy potential financial liabilities on accountants certifying statements filed with the Commission. The Institute immediately developed co-operative relations with the Commission and its chief accountant. Most of the S.E.C.'s accounting policies, usually enunciated in the form of opinions of the chief accountant of S.E.C., have been developed after consultation with committees of the Institute.

The feeling grew stronger that the accounting profession itself should take the lead in enunciating general principles of accounting, rather than leaving

this task to a government agency, and the Securities and Exchange Commission indicated its willingness in general to follow any lead which the Institute might give. Accordingly, it was decided about 1938, to organize a committee on accounting procedure of the Institute, consisting of about twenty members fully representative of the profession, and including teachers as well as practitioners, whose duty it would be to issue bulletins indicating the committee's opinions as to the more desirable accounting practices in controversial areas. At the same time, a research director was employed to assist the committee in its work. The result to date has been publication of forty-two Accounting Research Bulletins on a wide variety of topics, including several on accounting terminology. For the past two years, the committee has been engaged in consolidating and restating the bulletins dealing with accounting procedures in a single document, which is expected to be published in the summer of 1953¹. The terminology bulletins will be restated in a separate booklet, expected to be ready this fall.

The pronouncements of the committee, in its Accounting Research Bulletins, have had a very wide influence on corporate practice. With few exceptions, the S.E.C. has enforced opinions of the committee. Bankers have also become aware of these pronouncements and they are followed generally in statements submitted for credit purposes.

Auditing Procedures

The effort to develop a rational and inclusive statement of auditing procedures began even earlier. In 1917 the Federal Trade Commission requested the American Institute of Accountants to write up the approved methods for preparation of balance sheets as an aid in improvement of statements submitted for credit purposes. The statement prepared by the Institute, which was published by the Federal Reserve Board, included many essential audit steps. Comprehensive revision of this bulletin was undertaken in 1929 and again in 1936, when it was issued by the Institute itself under the title of *Examination of Financial Statements by Independent Public Accountants*. This version outlined in fairly general terms the principal audit steps normally necessary in the examination of a typical manufacturing enterprise to permit the expression of opinion, or certification of balance sheet and income statement by a C.P.A.

¹ Now published. See *The Accountant* of August 29th 1953, p. 242.

The second part of an address delivered on July 14th, 1953, at the summer course of The Institute of Chartered Accountants in England and Wales, held at Christ Church, Oxford. The first part was reproduced in last week's issue.

Naturally, the necessity for judgment and discrimination in applying the recommended procedures to any individual case were adequately emphasized.

In 1938 the famous McKesson & Robbins fraud was discovered, and was followed by a wave of publicity throughout the United States in which existing auditing procedures were widely, and it is only fair to say also, loosely criticized. The Securities and Exchange Commission made an extensive investigation of the audit procedures followed by the independent auditors of McKesson & Robbins and concluded that they had not failed to conform with then existing audit standards. It seemed clearly desirable, however, that re-examination of existing standards should be undertaken, and a committee of the Institute laboured long and hard at this task. The result was the publication of *Extensions of Auditing Procedure*, which, for the first time, recommended as standard audit procedure the observation of physical inventories and direct confirmation of receivables as an essential to the certification of financial statements. This recommendation was later approved by the Council of the Institute and adopted by the members assembled in annual meeting.

Subsequently, the Committee on Auditing Procedure of the Institute issued a number of statements on auditing procedure and a number of case studies illustrating the application of procedures to specific situations. A statement of auditing standards was also developed. Altogether, twenty-four Statements on Auditing Procedure have been issued.

In 1947 the Committee on Auditing Procedure issued its now famous statement No. 23, which recommended that an independent auditor, in any report to which his name was attached in conjunction with financial statements, either express an opinion on the fairness of the financial statements (i.e. certify), with or without exceptions as might be permitted; or, if his examination had been insufficient to justify the expression of an opinion, or if for other reasons he must withhold an opinion, state clearly that he was unable to express such opinion (certify) and the reason why.

This bulletin excited a lively debate within the profession, but at the conclusion of two years of discussion, it was approved by the Council and by the membership assembled in annual meeting in 1949.

In order to present all these developments in an orderly and understandable manner to bankers and other interested segments of the public, the Institute in 1950 published a pamphlet entitled *Audits by Certified Public Accountants*, generally known as the 'Red Book', and withdrew from circulation the earlier bulletin *Examination of Financial Statements by Independent Public Accountants*.

A copy of *Audits by Certified Public Accountants* is being sent to every chartered accountant enrolled in the 1953 summer course for general information.

The Committee on Auditing Procedure has also codified all its earlier statements, which were published in 1951 in a single pamphlet under the title *Codification of Statements on Auditing Procedure*.

Professional Ethics

Since 1917 the American Institute of Accountants has published rules of professional conduct (prior to that time a few basic rules were incorporated in the by-laws). They have been amended frequently and additions have been made from time to time. At present there are sixteen rules which may be summarized as follows:

Professional attitude

1. Firm name, style, and description must be appropriate.
2. Practice as a corporation is forbidden.
3. Occupations incompatible with public accounting are prohibited.
4. Members in practice but also engaged in other related occupations must also observe rules of conduct in such occupations.
5. Advertising is prohibited.
6. Solicitation is prohibited.
7. Institute members must observe the rules of states, where they exist, on competitive bidding.
8. Offers of employment to employees of other accountants are prohibited.

Confidence of clients

1. Confidential relationship with client must not be violated.
2. Splitting fees with, or paying commissions to, laity is prohibited.
3. Member may not permit another to use his name except his partners and employees.
4. Member may not sign work prepared by others than his own associates or other accredited accountants.

Confidence of third parties

1. In certifying statements, members must conform with generally accepted accounting and auditing standards.
2. Contingent fees (fees depending on the accountants' findings or the results thereof) in conjunction with audit work are prohibited.
3. Members must not vouch for the accuracy of forecasts of earnings.
4. Member may not express opinion on financial statements of an enterprise financed by public distribution of securities if he, or one of his immediate family, has a substantial financial interest in the enterprise; if the enterprise is not publicly financed but the statements are used as basis of credit, he may not express an opinion unless in his report he discloses any substantial financial interest which he, or his family, may have in that enterprise.

The most important ethical concept, of course, is that of independence. This is nothing new. The basic concept was brought over to the United States by the English and Scottish chartered accountants in the late nineteenth century.

But in earlier years independence was considered as generally synonymous with integrity and honesty—a quality that would assure the telling of the truth.

In the past twenty years, in the United States, due largely to the influence of the Securities and Exchange Commission, there has been a tendency to develop objective standards of independence—that is, to define circumstances in which independence may be presumed to be impaired. (This matter will be discussed further under 'Conflicts and problems'.)

While the word 'independence' is not used in the American Institute's rules, it is clear that a number of the rules are designed to buttress independence.

Most important is Rule 5, which reads as follows:

'(5) In expressing an opinion on representations in financial statements which he has examined, a member may be held guilty of an act discreditable to the profession if:

- (a) he fails to disclose a material fact known to him which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; or
- (b) he fails to report any material mis-statement known to him to appear in the financial statement; or
- (c) he is materially negligent in the conduct of his examination or in making his report thereon; or
- (d) he fails to acquire sufficient information to warrant expression of an opinion, or his exceptions are sufficiently material to negative the expression of an opinion; or
- (e) he fails to direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedure applicable in the circumstances.'

This rule in effect incorporates by reference, in paragraph (e), the Accounting Research Bulletins and Statements on Auditing Procedure referred to above. The references to generally accepted accounting principles and generally accepted auditing procedure relate directly to the pronouncements of the Institute on technical matters. In one case heard before the Trial Board, members were held guilty of violation of Rule 5 by virtue of failure to observe a work-in-process inventory, which had proved to be substantially overstated. There was no accusation in this case of bad faith on the part of the accountants.

Rule 5 has not yet been amended—though it has been suggested—to provide for enforcement of Statements on Auditing Procedure No. 23 (requiring that an auditor whose name appears in conjunction with financial statements either express an opinion on the fairness of the statements or state that he does not express such an opinion, and explain why).

Rule 5, therefore, reinforces independence by requiring members certifying financial statements to tell the truth, to avoid neglect or carelessness, and to adhere to the objective standards of accounting and auditing which the profession has adopted.

Other rules fortifying independence are those which limit financial interest in a client's affairs; prohibit contingent fees for auditing work; prohibit

payment of brokerage or commission with the laity; prohibit engaging in occupations incompatible with public accounting.

The remaining rules are clear in purpose and require no elaboration here.

Taxation and Management Service

No technical or ethical standards have been developed with reference to the C.P.A.'s services in taxation, or accounting services rendered to management, comparable to the elaborate standards designed to govern his work and conduct in the capacity of independent auditor.

In the absence of such standards questions and suggestions have arisen which will be discussed under 'Conflicts and problems'.

CONFLICTS AND PROBLEMS

C.P.A. Legislation and Public Accountants

In the legislatures of the forty-eight states and four territories, bills are frequently introduced to lower the standards under which the C.P.A. certificate may be issued, or to provide for continuing recognition and licensing of non-certified public accountants as a second accredited class 'in perpetuity'.

Common patterns in these efforts are: waiver of examination for candidates with long practical experience; credit toward passage of examination for each year of experience; oral or other special examination for candidates with specified experience; creation of a class of 'registered' or 'licensed' public accountants, consisting first of all of those currently in practice, without examination, but later admissions to be governed by examination separate from the C.P.A. examination.

The state societies of certified public accountants must be continually on the alert for legislation of this character. It comes every year, now in one state, now in another, and the state societies often call on the Institute for assistance in resisting it. Every now and again the dike will break, and a number of C.P.A. certificates or licenses will be issued to accountants who have not demonstrated their qualifications. Then the state society and the Institute must undertake the difficult job of repairing the breach, which in some cases has taken years.

As the prestige of the C.P.A. has increased, however, successful attacks on the standards have become rarer, and in recent years all but a few minor inroads have been defeated.

Public accountants have organized themselves in state and national associations, and continue to press for recognition in some form. In about twenty states regulatory legislation has been enacted, generally with the consent of the C.P.A.s, under which all public accountants currently in practice have been registered without examination, but future licences to practice public accounting are to be issued only to certified public accountants. Even in these states undesirable legislation is occasionally proposed, either to make it easier for registered public account-

ants to get the C.P.A. certificate, or to reopen the original registration of public accountants to admit others without examination.

Certified public accountants throughout the United States are so sharply divided on the desirability of regulatory legislation that the Institute has been forced to adopt a neutral position, leaving the question for each state to settle for itself.

No permanent solution of this problem is visible. Eternal vigilance seems to be the price of professional quality. Some C.P.A.s believe that they will eventually become so numerous and so well known that public accountants will find it necessary to become C.P.A.s in order to stay in practice.

Financial Reporting

The accounting profession in the United States has had to struggle to maintain leadership in the development of accounting principles. The statutes creating the Securities and Exchange Commission give it the power to require financial statements which are not misleading. The S.E.C. interprets this as power to make accounting rules applicable to companies registered with the Commission – all companies listed on stock exchanges and all companies offering securities for sale in interstate commerce. While annual reports to stockholders are not controlled by the S.E.C., it is obviously undesirable for a company to issue two sets of statements based on different principles. So the potential danger is ever present that the S.E.C. may attempt to dictate accounting principles, leaving C.P.A.s shorn of power to use their professional judgment, somewhat in the position of clerks filling out government forms.

Actually the S.E.C., particularly in recent years, has been content to follow the lead of the American Institute and enforce its Accounting Research Bulletins as generally accepted accounting principles. Most differences of opinion between the S.E.C. and the Institute have been reconciled without difficulty. On a few occasions, however, irreconcilable differences have arisen. While S.E.C. has the power to enforce its decisions on companies subject to its jurisdiction, certifying accountants may, of course, take exception in their opinions to accounting requirements with which they disagree, and this has happened on some occasions.

S.E.C. also has the power to suspend or disbar accountants from certifying statements filed with the Commission. On a few occasions it has exercised this power in what the profession considered an arbitrary manner. Consideration is now being given to possible safeguards against capricious disciplinary action against C.P.A.s by government agencies. The possibility of such action tends to weaken the independence of C.P.A.s as against the regulatory bodies.

Income taxation has had a profound and often unfortunate influence on the development of accounting principles in the United States. Space does not permit extensive discussion of this subject here, but the problem has been the subject of many articles in

the accounting journals. The accounting profession continues to struggle to bring tax accounting into conformity with business accounting, without notable success to date. However, the prospect is brighter at this moment, since new leaders in Congress have invited the American Institute to submit recommendations on this subject, and the new Commissioner of Internal Revenue, T. Coleman Andrews, C.P.A., has indicated a sympathetic interest.

The extent to which accounting rules of other government agencies adversely affect the development of sound accounting is indicated in an article by Professor Herbert F. Taggart in *The Journal of Accountancy* for March 1953. The American Institute attempts to resist bad accounting requirements wherever they appear, but it is impossible to be everywhere every time such a proposal is being considered.

Labour union officials have been critical of published financial statements of corporations and, on occasion, critical of the certified public accountants who certify them. Broadly, union officials desire greater disclosure of the detail of cost of goods sold, and compensation of management. They also oppose 'conservative' accounting, and press for accounting principles which tend to increase the reported amount of current net income.

Amid all these diverse influences it is not surprising that there is not perfect comparability among the financial statements of corporations, even those in the same industry. Variations in inventory methods, accelerated amortisation of production facilities, differences in accounting for pension funds – these are some of the major reasons why 'net income' as reported by different companies may not mean precisely the same thing.

Yet consistency and comparability cannot be rejected as desirable objectives. Investment analysts complain at the diversity of reporting methods, the public is apathetic, the S.E.C., the tax gatherer, and the labour unions pull in different directions. Meanwhile, the accountant does the best he can, uneasily aware that he will be blamed by everyone, and dreading a sudden, impatient demand for that dangerous nostrum for all ailments – uniform accounting.

Auditing Procedure

While the auditing standards and procedures developed in the United States are regarded by the profession with some satisfaction, it is recognized that compliance with these standards, even those enforceable under the rules of professional conduct, is by no means universal. Some C.P.A.s, incredible as it may seem, appear to be unaware of the existence of these requirements. Others secretly refuse to conform.

The more controversial requirements are less than fifteen years old. Statement No. 23 is only six years old, and it is conceded that it takes time to educate large numbers of people to change their habits.

The S.E.C. enforces auditing standards in the

areas subject to its jurisdiction. Non-compliance therefore is widest among C.P.A.s serving closely held corporations and small business.

Here the pressure for compliance comes from bankers and credit men. The bank loaning officers, particularly, have praised the recent developments in auditing and reporting procedures, and have backed the Institute in the effort to increase their acceptance. In a pamphlet entitled *Financial Statements for Bank Credit Purposes*, intended for distribution among borrowers, the Robert Morris Associates, national association of bank credit officers, said last year:

'Inasmuch as the business man bases his management decisions on financial statements, he must be certain that such statements are reliable. His best assurance of their reliability is to have them audited at least annually by an independent certified public accountant - a professional practitioner whose function is to determine the facts and present them clearly. . . .

'In making an audit, the certified public accountant must himself determine the scope of the examination necessary to enable him to express an unqualified opinion of the financial statements of the business. He must be permitted to make such tests and checks as he considers necessary to give an unqualified professional opinion. If, for example, receivables and inventory are material and the accountant is restricted in confirming receivables or verifying inventories, he will be unable to express a satisfactory opinion. . . .

'Their cost [of audits] should be regarded as a normal operating expense necessary to good management. . . .

'If the financial statements are accompanied by the unqualified opinion of an independent certified public accountant, they will be more acceptable to the banker and will expedite his consideration of the credit needs of the applicant.

'The practice of employing an independent certified public accountant to examine and report upon the financial statements has grown very substantially over the past twenty-five years and is today a customary requirement in connection with a loan application.'

A survey of audit reports submitted to banks for credit purposes in all parts of the United States is now being conducted by the American Institute of Accountants in co-operation with Robert Morris Associates, state societies and local bankers.

The survey consists of analysis of actual audit reports submitted to banks in support of loan applications. About 10,000 audit reports are expected to be analysed, providing a broad cross-section of current practice. The American Institute of Accountants prepared a questionnaire, which local banks are asked to answer with respect to each audit report analysed, so as to bring out the extent of compliance with most important features of generally accepted auditing and reporting procedures.

The results will be used as a basis for extended educational efforts within the accounting profession, and among bankers, to improve auditing practices and to encourage bankers to support generally

accepted standards. It is hoped that the combined efforts of C.P.A.s and bankers may overcome remaining resistance of business men to independent audits of unrestricted scope, with resultant benefits to all parties concerned.

The objectives of all this work are manifold - to increase general acceptance of independent audits among business men as a useful instrument of management and credit; to increase confidence in independent audits among bankers, credit men, government agencies, and the public generally; to improve the quality of independent audits so as to discourage the extension of auditing work by government agencies or private institutions; to clarify auditing standards and auditors' responsibilities so as to avoid imposition of unfair legal liabilities.

Government Audits

To a greater or less extent, many government agencies have undertaken auditing work in conjunction with regulatory functions, taxation, financial support of various segments of the economy, or procurement of defence materials. Examples may be found in the fields of insurance, banking, savings and loan associations, rural electric co-operatives (until recently), municipal and county governments, and defence contractors.

In addition to the government agencies which undertake actual auditing or examination of accounts to a greater or less extent, there are other agencies which have supervisory powers over the accounting of regulated industries, the most notable example of which are the public-utility commissions which prescribe uniform systems of accounts for public utility companies. The enforcement of accounting regulations involves procedures which might be described as 'desk audits' - that is, passing on the accounting treatment of specific items without necessarily examining the underlying accounts and records. There has been some disposition to dispense with independent audits by certified public accountants in the regulated industries, both in those industries whose accounts are actually examined by government auditors and in those industries whose accounting is subject to so-called 'desk audit' supervision. Among the first group are banks and insurance companies, for example, and in the second are public utility companies and railroads. The fact that many of these regulated institutions have fairly elaborate internal audit procedures may contribute to the feeling that independent audits are unnecessary.

But there may be a reversal of this trend of thought. At the present time banks, partly motivated by what seems to be an increase in defalcations, are actively reconsidering the desirability of independent audits by certified public accountants. Many of the large insurance companies issue reports bearing the certificate of certified public accountants. A straw in the wind may be the fact that the Atchison, Topeka & Santa Fe Railroad, which discontinued independent audits some twenty years ago, has just this year

decided to engage a firm of certified public accountants to audit its accounts.

Another interesting tendency is indicated in a number of instances in which government agencies, without investigation, rely on financial statements certified by independent certified public accountants. The Securities and Exchange Commission is the most notable example. The Rural Electrification Administration, several years ago, liquidated its internal auditing staff, due to budgetary difficulties, and began the policy of requiring rural electric co-operatives borrowing funds from R.E.A. to submit financial statements audited by C.P.A.s.

In re-negotiation of war contracts and in defence procurement, government agencies have relied to some undefined extent on representations by C.P.A.s. The General Accounting Office, in the examination of accounts of so-called Federal corporations (corporations financed and operated by the government, such as the Tennessee Valley Authority, the Commodity Credit Corporation, etc.), have on occasion enlisted the assistance of independent certified public accountants. The Reconstruction Finance Corporation has employed certified public accountants to make examinations of defence plants operated on a management-fee basis. The Army Signal Corps on

at least one occasion employed certified public accountants to make audits in connection with termination of war contracts. It is generally understood that even the Bureau of Internal Revenue, in classifying income-tax returns for examination by its agents, informally gives some weight to the fact that returns have been prepared by certified public accountants – in other words, they may be subjected to less searching scrutiny than returns prepared by others.

Thus there appear to be conflicting trends. Always in the background is the possibility that government agencies charged with the responsibility of regulating business activities might take over the audit function as an integral part of the regulatory process. On the other hand, there is precedent for reliance by governmental agencies, as by investors and credit grantors, on reports certified by independent certified public accountants. The accounting profession hopes to increase and extend public confidence in the standards, abilities, independence and integrity of certified public accountants, and to persuade all concerned that reliance on the reports of C.P.A.s is a natural, proper and economical means of obtaining credible financial information for any purpose.

(To be concluded.)

WEEKLY NOTES

The Association's Examination Results

There were 1,979 candidates for the June 1953 examinations of The Association of Certified and Corporate Accountants, and the results, now published, show that of this total, 1,007 sat for the Final examination.

In Section I of the Final there were 714 candidates of whom 310 (43 per cent) passed, the First Place and Prize being awarded to Mr M. Feld, of London. The Second Place and Prize was won by Mr C. D. Lloyd, of Richmond, Surrey, who took First Place in the June 1952 Intermediate examination.

In Section II, 146 candidates (50 per cent) passed and 147 failed, the First Place and Prize being won by Mr E. W. Greenshields, of Scotstoun, Glasgow.

There were 884 candidates for the Intermediate examination, of whom 348 (39 per cent) passed and 536 failed, the First Place and Prize being won by Mr H. Preston, of Wembley.

In the Preliminary examination, 56 candidates out of 88 (64 per cent) were successful.

The names of successful candidates in both sections of the Final, together with a full summary of the results, appear elsewhere in this issue.

National Income and Expenditure, 1946-1952

From 1946 to 1952 the quantity of goods and services produced in this country rose by 15 per cent. At 1948 prices this represents a rise of £1,500 million. On the

same basis imports rose by about £400 million, so that the total increase in supplies available was £1,900 million. These figures are revealed in the Blue Book on national income and expenditure published last Tuesday.¹

Nearly two-thirds of the increase in supplies went in the form of higher exports. The amount taken by public authorities for current purposes was down – chiefly because of the reduction in the armed forces. About half of the extra supplies available for domestic use went to consumers and half to fixed capital formation. This rise in capital formation occurred mainly by 1949, the rise in exports by 1951. From 1951 to 1952 there was a small fall in total supplies, from imports as well as from home production.

From 1951 to 1952 personal incomes rose by 6½ per cent (in money terms) or £800 million, as against a rise of £950 million from 1950 to 1951. Total tax liability on personal incomes fell by over £60 million, but national insurance contributions rose by £20 million. Expenditure rose by £530 million.

Since 1947, income-tax and national insurance contributions have taken 14 per cent of personal incomes, while indirect taxes have taken another 13 per cent. People with less than £500 a year paid about the same proportion in tax in 1952 as they did in 1938; people with incomes between £500 and £1,000 paid 1 per cent more of the incomes in tax;

¹ H.M.S.O. 6s. net.

people with incomes between £1,000 and £2,000 paid 5 per cent more; from £2,000 to £10,000, 15 per cent more; and those with incomes over £10,000 paid 24 per cent more. Although there are nine million incomes of less than £5 a week, these include old-age pensioners, juveniles at work but living with their parents, widows, and also members of the armed forces and domestic servants who enjoy income in kind as well.

Between 1951 and 1952 expenditure on food went up by some 10 per cent but the quantity purchased, measured by 1948 prices, was actually less, notwithstanding the abandonment of rationing over a large field. The peculiar influence exerted by rent restriction is illustrated by the fact that, taking 1948 prices as the standard, the expenditure on rent, rates and water charges rose in the period 1946 to 1952 from £601 million to £666 million. In view of the enormous amount of new building in that period, and the steep rise in rents of business premises, the rents paid for dwelling-houses can hardly have risen at all.

Personal Savings in 1952

All the experts, apart from those with official information of a confidential nature, were confounded at the time of the Budget by the news of the recovery in personal savings during 1952. The figures issued now with the Blue Book on the national income confirm the reversal of trend in savings last year but the reasons why it should have been on such a scale is still rather obscure.

According to the latest statistics, personal savings last year amounted to £502 million and there was a further £49 million left over for acquiring capital assets once the first sum had been used for repaying overdrafts.

Personal saving, it will be recalled, is done so far as the national income definitions are concerned by one man businesses, farmers, professional people and the like. Over the nation as a whole incomes last year were increasing owing to higher wages and salary payments but the incomes of those who did this large amount of saving in 1952 actually declined. Last year thus recorded the remarkable phenomenon that a certain type of income-earner had his income reduced but his gross savings went up from £220 million in 1951 to £502 million in 1952.

It is probable that the savings were to a large extent of a forced kind, brought about by the demands of bank managers for the repayment of advances. It is known that this was the main pressure exerted on the community by dearer money and more stringent conditions for overdrafts. It has to be noticed, however, that there was a small margin over and above sums saved for this purpose which represents capital accumulation.

Capital Formation in Industry

While personal savings were behaving in a most unpredicted manner last year, the performance of

industry was much more according to expectations. Stocks were run off and there was much smaller provision made for future taxation, although actual payments were on the increase throughout the year. The reasons why industry faced 1953 in a much more liquid condition than at the same time in previous years is thus apparent. The figures, in fact, add little to what was known already.

Gross capital formation changed little throughout the year and such change as there was can hardly give rise to satisfaction. Industry as a whole (that is, excluding the nationalized industries) made little addition to capital and if allowance is made for changes in prices, outlay on new plant and equipment actually declined. It is clear that the high priority for housing has channelled most capital formation in that direction. For the time being it seems that if industry wishes to increase its capital outlay it must rely on a larger cake being available for everyone, for housing continues to have a top priority on the nation's resources.

For one reason and another 1952 may have seen a welcome recovery in savings even if much of it was due to sterner policy by the banks and to running down of stocks. It may be, indeed, that we are once more learning how to save. But to judge from last year's figures we still have to remember how to invest.

Industrial Buoyancy Continues

There was a fall in the official index of industrial production for June compared with May, but the decline was smaller than at the same time a year ago. In the same way, the provisional calculations for July, suggest that the decline last month which has been mainly due, of course, to the holiday period, will be smaller than a year ago.

In June there was a four-point drop from 123 to 119 in the official index. Over the same month a year ago the index fell by five points. It is true that in 1952 Whitsuntide fell in June but this year June had to cope with the Coronation holiday. How far these two influences affected the comparison is difficult to say but it is probably reasonable to infer that there was no sign during June of any change in the trend of industrial production which has been moving strongly upward this year.

In July the index is expected to drop by about six to seven points and if this should be the case it will compare with a decline in July last year of about ten points. So here again the picture is one of resilience.

While this general satisfactory position in the trend of industrial activity goes on there are spots here and there where there is room for considerable improvement. The main one is in coal where consumption has gone up and production lags resulting in the need to import coal. Once the autumn sets in the level of production in the fuel and power industries will be most important to watch.

FINANCE AND COMMERCE

Uncertainties created by the tone on Wall Street and by the electrical trades wage dispute have tended to unsettle the London stock-market. It is becoming accepted that much of the anticipated autumn market revival has already been discounted.

Complications

A couple of months ago, a letter appeared in the Press on the way the last Companies Act had complicated company accounts. The author listed ten types of balance-sheet entry which had made 'confusion worse confounded'. Among them was 'Surplus arising on consolidation'.

One has to admit the facts. The accounts of many companies are beyond the comprehension of many shareholders, and it is very difficult to do anything about it. There are many things in life of which the average man has a general idea but which are only understood by those who have made a study of the subject.

'Surplus arising on consolidation' was one of the points explained by Mr W. H. Higginbotham, F.S.A.A., F.S.S., chairman of Edgar Allen & Co, the Sheffield steel company, in his recent annual speech. We reprint the consolidated portion of the accounts this week. Under 'Capital reserves' the entry stands at £66,636.

Mr Higginbotham split the item into its component parts - £1,244, £2,388 and £63,004. The first figure results from the acquisition in 1939 of the British 'Rema' subsidiary, when the parent company was fortunate enough to obtain the benefit of certain pre-acquisition profits and later tax adjustments. These were set off against the purchase price.

The figure of £2,388 arises in respect of the Canadian subsidiary mainly as a result of the depreciation of sterling against dollar currency since that company's incorporation.

Additional Reserve

The £63,004 arises in connection with the French company. This concern, during enemy occupation improved its plant and, in consequence, had to increase its capital. It has, for various reasons such as currency devaluation, unstable national finances and exchange conditions, been unable to distribute more than a small part of its profits in cash and has applied them instead to increase share capital and reserves. The surplus attributable to Edgar Allen's proportionate holding, occasioned in great measure by the change in the franc exchange rate since 1939, at par value over the written-down acquisition cost as maintained in the parent books, is the £63,004.

Mr Higginbotham went on to explain that the whole of these surpluses could no doubt properly be incorporated in the parent company's respective book values, and its capital reserves correspondingly increased. But, so long as they are disclosed, he added, there is no obvious advantage in so doing.

They may be regarded, he said, as an additional but unrealizable reserve.

So there it is, explained by the company's chairman, a qualified accountant and statistician. Let it be hoped that the explanation has been followed and understood. If, as is possible, the explanation is still above the heads of some shareholders, one can only say that to understand complicated accounts, some knowledge of accounting principle is needed, very much as one needs some engineering knowledge to understand the working of a complicated piece of machinery.

Worth Reading

Mr Higginbotham's speech, which runs to nearly a whole page of a daily paper, is well worth reading. We passed it, incidentally, to a man who drives motor-cars from manufacturer to delivery point, and he was amazed to read that this company and its employees had worked thirty-one and a half weeks out of the year for the Inland Revenue. Expressed in another way, the year's tax charge, at the rate of 63 per cent of profits is, says Mr Higginbotham, equal to a weekly rate of nearly £4 per person employed as compared with their average weekly earning rate of not more than £8 10s.

Taxation at this level, Mr Higginbotham says, is undermining the foundations of the industry and commerce on which the national economy depends. The menace is so grave that it demands much more than tinkering with minor concessions in rates and depreciation allowances or leisurely consideration by committees and Royal Commissions. What is needed is a drastic overhaul of public expenditure, and especially of the policies which cause it.

The company's accounts this year have been given a new look by an improvement in layout, printing and paper. One of the points to which consideration has been given, is the extent to which the various revenue reserves for development and replacement, repairs and maintenance, must be regarded as required for the purposes for which they were originally set up in view of the expenditure since incurred and progress made in fulfilment of those purposes. For the time being, the directors have decided to carry forward these reserves intact, but their position is to be reviewed at a later date. It is a point we have mentioned from time to time. Reserves are created for specific purposes and continue in balance sheets year after year, when they are no longer appropriate. Some companies have solved the problem by a general reserve amalgamation.

Money Market

This week sees a record offer of £300 million of Treasury bills. The offer of £280 million of bills on August 28th brought applications of £370,210,000. The market, bidding at £99 8s 4d obtained 77 per cent of requirements. The average rate was £2 6s 8.25d per cent.

EDGAR ALLEN & CO LIMITED AND SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account for the Period from March 30th, 1952, to March 28th, 1953, Inclusive

March 29th, 1952		March 29th, 1953	
£	£	£	£
133,609	Depreciation	175,959	Trading Profit of Group
26,377	Contributions to Staff Pension Schemes	21,557	.. .. .
257	Debt Interest and Charges	213	.. .. .
	Remuneration of Directors of Edgar Allen & Co Limited:		Interest and Dividends (gross) from Trade Investments
14,934	Management Services	19,750	.. .. .
8,645	Contribution to Pension Scheme	8,645	.. .. .
23,579	Expenses in connection with Increase in Authorized Capital and Issue of Bonus Shares	28,395	.. .. .
—	Group Profit, before Taxation, carried down	4,600	.. .. .
800,346		706,342	.. .. .
<u>£984,168</u>		<u>£937,066</u>	<u>£937,066</u>
£	Taxation on Current Year's Profits:	£	£
304,400	Income-tax	317,700	Group Profit, before Taxation, brought down
100,200	Profits Tax	45,700	.. .. .
20,000	Excess Profits Levy	27,000	.. .. .
424,600		410,400	.. .. .
8,597	Less Excess Profits Tax recoverable, less Income-tax, on Rehabilitation Expenditure, year to March 29th, 1952	6,539	.. .. .
416,003		403,861	.. .. .
17,084	Dominion and Foreign Taxation	37,282	.. .. .
433,087		441,143	.. .. .
367,259	Group Profit, after Taxation, carried down	265,199	.. .. .
<u>£800,346</u>		<u>£706,342</u>	<u>£706,342</u>
£	Profit for year retained by French Subsidiary Company either as Revenue Reserves or Unappropriated:	£	£
8,051	Attributable to Outside Shareholders	6,559	Group Profit, after Taxation, brought down
21,103	Attributable to Edgar Allen & Co Limited	17,190	.. .. .
29,154		23,749	.. .. .
338,105	Balance transferred to Profit and Loss Account of Edgar Allen & Co Limited.	241,450	.. .. .
<u>£367,259</u>		<u>£265,199</u>	<u>£265,199</u>

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Auditing Tests

SIR, - The methods outlined by Mr K. W. Walker in *The Accountant* of August 22nd would certainly be of value of auditors in assessing the results of test checks. The inferences obtained from these methods differ so much from the logical and traditional approach that accountants who lack training in higher mathematics will require considerable reassurance before adopting them.

For example, if an auditor on examining what he took to be a reasonable sample found an error of 1 per cent, he would normally feel himself entitled to expect that there was a probability that the error throughout the whole field was in the region of 1 per cent. The use of the table, however, shows that one error found in a sample of 98 items leads one to expect, with a 90 per cent probability, that overall there are 4 per cent of errors. We thus have a mathematical conservatism in excess of normal professional caution, and in addition find that mathematically the percentage of errors in the whole field will probably exceed that found in any sample.

To offset this pessimism we have the optimistic assumption that the finding of a greater proportion of errors in a second sample does not indicate a probability of more errors in the whole field. Thus, one error in 98 items indicates a 90 per cent probability that there are 4 per cent errors in the whole. If a second sample were taken which showed four errors in 200 items, then although the normal auditor would assume that this sample showed a position twice as bad as the first sample, yet according to Table 1 there is still only a 90 per cent probability of 4 per cent of errors in the whole field.

Yours faithfully,

XELA.

SIR, - I was interested in Mr K. W. Walker's article in your issue of August 22nd on auditing tests. The decision when and how to rely upon sample tests must be taken having regard to the circumstances of each case. The sampling techniques applicable to quality control and sequential analysis in a factory are applicable only when there is good evidence that the process is under control. This means that factors affecting quality, which are not fully supervised, may be expected to exert a relatively small influence one way or the other and that their combined effect will tend to give rise to variability in a frequency distribution known as the 'normal curve of error'.

In an organization which was big enough to incorporate many internal checks in its accounting routine, one could safely say that the accounting process was under control, but an attempt to justify a test check by reference to a probability/level of significance

table (which may not be fully understood) is unwise. It may be applicable to checking the arithmetical accuracy of casts, and it is possible that dishonesty among carefully selected staff will, like the frequency of horse-kicks in the Prussian Army, follow a *poisson* (probability) distribution! For the normal laws of probability to apply to sampling, the sample must be a random sample and *not* a haphazard one.

The mental impressions conveyed by circumstantial evidence which could lead an auditor to suspect a record, are not, I think, capable of arithmetical expression. He must follow up any suspicion however small the probability. The auditor will be better employed in verifying that the authorization of expenditure is under proper control.

The use of tables of probability functions is fraught with dangers and those who try to use them without proper knowledge of the laws of probability run the same dangers as an accountant who goes into practice without proper knowledge of the statute law.

Yours faithfully,

INCORPORATED STATISTICIAN.

Reversing the Balance Sheet

SIR, - It would be interesting to hear readers' views on the desirability, the advisability, and the dire necessity in the interests of consistency and fundamental accounting principles, now to reverse the sides of the balance sheet, that is to say, to place the assets and expenditure on the left - 'debit' - and the capital, reserves, etc., on the right - 'credit'.

Taking the courage of my own convictions after thirty-odd years' consideration and 'crying in the wilderness' I have at last thus reversed all my balance sheets and have in fact put this into operation.

Yours faithfully,

London, N5.

H. H. BRODIE.

Stamped Receipts

SIR, - On page 224 of *The Accountant* for August 22nd, Mr Carpenter states (line 6):

'the payer... if the amount paid is £2 or over is entitled to a stamped receipt'.

I believe that the Stamp Act, in which the reference to £2 appears, gives the payer no right to receive a receipt; it simply makes it a *statutory offence* for the payee to refuse one if the amount is over £2.

It may be that a payer has a common law right to a receipt, but the amount of the payment would then be irrelevant.

Yours faithfully,

Liverpool, 12.

E. R. KERMODE.

did not receive any rent during 1947-48, he could not be assessed pursuant to Section 15 of the Finance Act, 1940; and that, therefore, neither income-tax nor special contribution was payable for that year. It was contended on behalf of the Inland Revenue that all that was necessary under Section 15 was that the respondent should have been entitled to rent during that year, and that the fact that he had not received any during the year was immaterial. The General Commissioners decided in favour of the respondent.

Held, that the contention on behalf of the Inland Revenue was correct.

Platt's Trustees v. C.I.R.

In the High Court of Justice (Chancery Division)

July 10th, 1953

(Before Mr Justice VAISEY)

Stamp duty - Surrender of life interest - Whether conveyance or transfer - Whether voluntary disposition inter vivos - Stamp Act, 1891, Sections 13, 54 - Finance (1909-10) Act, 1910, Section 74.

By his will a testator, who died in 1940, left the residue of his estate to his sons for life, subject to a prior interest of his widow in a portion of the income, during the life of the widow, and then the residuary estate was to be held among his children equally for their lives, and then was to go to their children. Each of the testator's children executed a deed surrendering his or her life interest in the estate during the widow's lifetime, and surrendering his or her life interest in the estate after the death of the widow, to the intent that the life interests should be extinguished and that the trusts of the testator's residuary estate should take effect as if the testator's children had died at the date of the execution of the deed.

The Inland Revenue claimed *ad valorem* stamp duty on the values of the various life interests surrendered, on the ground that the deeds were conveyances or transfers operating as voluntary dispositions *inter vivos*, within Section 74 of the Finance (1909-10) Act, 1910. It was contended on behalf of the testator's children that the deeds merely extinguished the respective life interests, and did not convey or transfer anything.

Held, that the deeds operated as conveyances or transfers of the life interests to the children of the persons who executed them.

Patrick v. Broadstone Mills Ltd

In the High Court of Justice (Chancery Division)

cotton was processed on various machines, and as a result of which yarn was produced. At all stages in the process quantities of cotton were on the machines, and other quantities were waiting at the sides of the machines ready to take the place of the cotton actually on the machines. The cotton on the machines was called 'fixed process stock', and the cotton waiting beside the machines was termed 'spare process stock', and the fixed process stock, together with an agreed weight of the spare process stock, were referred to as 'base stock'.

The company and its predecessors had always adopted a system of accounting known as the 'base stock system'. By that system the base stock and any further spare process stock was not brought into the accounts at cost or market value, whichever was the less, but at a fixed amount. The fixed process stock was not shown separately in the accounts, but was included in the balance sheet in the item 'Land, buildings and fixed stock', and was brought in at a figure representing the cost of the fixed process stock in the mills on their purchase by the company in 1920, and this figure had never been changed. In the company's tax computations no amount representing the fixed process stock was included; and the spare process stock was carried in the trading account at an arbitrary figure which had been gradually increased. The assessments under appeal were made on the basis of bringing in all cotton at cost (which was less than the market value), and the cost of processing was added in relation to such of the cotton that had been processed. The Special Commissioners decided that the company was entitled to have its profits computed for tax purposes according to the base stock system.

Held, that although the base stock method was recognized in the industry and was unobjectionable for some commercial purposes, it was not correct for the purpose of computing profits for income-tax; and that, therefore, the Special Commissioners' decision was not correct.

Haldin Philipps Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)

July 17th, 1953

(Before Mr Justice VAISEY)

Sur-tax - Undistributed income of company - Period between end of last accounting period and commencement of liquidation - Accounts prepared after latter date - Whether those accounts 'made up' for this purpose - Finance Act, 1922, Section 21 - Finance Act, 1927, Section 31 (4), (6).

The appellant company went into voluntary liquidation on July 17th, 1951, and on December 18th,

approved at an extraordinary general meeting of the company on April 30th, 1952.

It was contended on behalf of the appellant company that these two accounts had been 'made up' for the purposes of Section 31 (4) of the Finance Act, 1927, and that, therefore, the only period that fell within that subsection was the period from April 1st, 1947, to July 15th, 1947.

Held, that accounts are not 'made up' for the purpose of Section 31 (4) of the Finance Act, 1927, unless they were made up before the date of the resolution for the winding-up; and that, therefore, the direction for the period from January 1st, 1946, to July 15th, 1947, was valid.

Glasgow Heritable Trust Ltd v. C.I.R.

In the Court of Session

July 22nd, 1953

(Before THE LORD PRESIDENT (Lord COOPER), Lord CARMONT and Lord RUSSELL)

Income-tax - Sale of real estate - Company incorporated in 1918 - Shareholders were speculative builders - Purchase of their stock-in-trade - Whether these facts relevant.

The facts of this case were summarized in the first report in *The Accountant*, dated March 21st, 1953, page 339. The Court remitted the stated case to the Special Commissioners for them to decide whether the operations performed by the company, and the sales that took place, were effected in the course of the carrying on of a trade by the company.

The Special Commissioners then decided that the fact that the company had bought the stock-in-trade of speculative builders, and that they and members of their families were the majority shareholders, was, in the circumstances, a relevant matter to take into account.

Held, that the case should be again remitted to the Special Commissioners for them to state specifically to what effect and for what purpose they attached relevance to the fact that the company had in 1918 bought the stock-in-trade of speculative builders, who and whose families became the majority shareholders, and for the Special Commissioners to add such further explanations of their grounds of decision as they thought fit.

British Legion, Peterhead Branch v. C.I.R.

In the Court of Session

July 22nd, 1953

(Before THE LORD PRESIDENT (Lord COOPER), Lord CARMONT and Lord RUSSELL)

Income-tax - Charity - Running of dances - Whether trade being carried on - Income Tax Act, 1918, Schedule D, Case I.

The objects of the appellants were to perpetuate the memories of local men and women who fell in the war, to further the social and recreational welfare

of survivors, and to assist needy dependants. The appellants, in 1947-48, paid £4,000 to the British Legion Remembrance Trust Fund for distribution among local needy dependants, and in 1949 they paid £750 towards the cost of the local war memorial. This money was obtained partly from donations and subscriptions, and partly from the running of dances at the local drill hall.

The hall was let to the appellants by the County Territorial Association at a token rent of £1. The charge for admission to the dances was 2s 6d, but larger sums were often paid by those who could afford to do so. The work of organizing the dances and giving services at them was done by members of the appellant body without charge. If the dances had been run on ordinary commercial lines, the surplus, which was obtained by the appellants from the dances, would have been very greatly reduced by heavy expenses.

The Special Commissioners decided that the appellants were carrying on a trade in the running of the dances.

Held, that there was evidence to support the Special Commissioners' finding.

Linlithgow Town Council Entertainments Committee v. C.I.R.

In the Court of Session

July 22nd, 1953

(Before THE LORD PRESIDENT (Lord COOPER), Lord CARMONT and Lord RUSSELL)

Income-tax - Charity - Provision of recreational facilities - Payment towards cost of repairs to town hall - Whether charitable purposes - Finance Act, 1921, Section 30 (1) (c).

The appellant committee was formed originally in order to further the campaign for 'holidays at home' during the war. During the years under appeal, 1945-46 to 1951-52, its activities had consisted of providing recreational facilities in the form of dances, sports, outings, concerts and other things, for the purpose of making the town more attractive to its inhabitants and to visitors. A surplus had been accumulated from the charges for those functions, and in particular from the dances, and the appellants paid £800 towards the cost of refitting the town hall. Under the Local Government Act, 1948, Section 132, the appellants' activities have become a competent charge against the rates.

The appellants applied for exemption from income-tax in respect of the receipts from their various activities, under Section 30 (1) (c) of the Finance Act, 1921; and they contended that their activities were charitable in that they were purposes beneficial to the community. The Special Commissioners decided that the appellants were not a charity within the section; and that, therefore, the claim for exemption failed.

Held, that the Special Commissioners' decision was correct.

Boarland v. Madras Electric Supply Corporation

In the High Court of Justice (Chancery Division)

June 18th, 1953

(Before Mr Justice UPJOHN)

Income-tax - Balancing charge - Sale of business to Crown - Whether business discontinued - Whether Crown a 'person' - Sale as a going concern - Whether balancing charge can be made - Income Tax Act, 1842, Section 134; Schedule D, Cases I and II, Fourth Rule - Taxes Management Act, 1880, Section 62 - Income Tax Act, 1918, Schedule D, Cases I and II, Rules 9, 11, Miscellaneous Rule 3 - Finance Act, 1926, Sections 31, 32 - Income Tax Act, 1945, Sections 17, 57 (2).

The respondent company carried on the business of a supplier of electricity in Madras, and did so under licences granted by the Government of Madras. The licences contained an option for the purchase of the undertaking by the Government of Madras. This option was exercised, and on August 29th, 1947, the company sold the undertaking to the Government. It was conceded that the purchase by the Madras Government was a purchase by the Crown.

The purchase price of the undertaking was £1,611,437, and the Inland Revenue claimed to be entitled to make a balancing charge on the company,

in the sum of about £850,000, pursuant to Section 17 of the Income Tax Act, 1945. It was contended by the Inland Revenue that the year for which the balancing charge could be made was 1947-48, for which an assessment could be made on the actual profit of the period from April 6th, 1947, to August 29th, 1947. On the other hand, it was contended on behalf of the company that no assessment in respect of that profit could be made, for the reason that Rule 11 (2) of Cases I and II of Schedule D had no application, because the Crown was not a 'person' within that Rule, and that the balancing charge fell to be assessed for the following year; but that as the company was not trading in that year, no balancing charge could be assessed at all.

It was also contended on behalf of the company that as the undertaking had been sold as a going concern, no balancing charge could be made.

Held, (1) that the Crown was a 'person' within Rule 2 of Cases I and II of Schedule D, and that, therefore, there had been a discontinuance of the trade on August 29th, 1947, that an assessment for the period from April 6th, 1947, to August 29th, 1947, could be made, and that the assessment for the balancing charge could be made for the same period; (2) that the fact that the undertaking had been sold as a going concern did not prevent the making of the balancing charge.

NOTES AND NOTICES

Personal

MESSRS CLARK, BATTAMS & Co, Chartered Accountants, announce the admission into partnership, as from September 1st, 1953, of Mr JOHN C. DURNIN, A.C.A., A.S.A.A., who has been associated with them for a number of years.

MESSRS COOPER BROTHERS & Co, Chartered Accountants, announce that they have opened a branch office in the Belgian Congo at Africa House, 105 Avenue de L'Etoile, Elisabethville.

MESSRS DONALD H. BATES & Co, of 10 Cheapside, Hanley, Stoke-on-Trent, announce the retirement of Mr W. C. COXON, F.S.A.A., as from August 17th. The practice will be carried on by the remaining partners together with Messrs D. G. PRATT, A.S.A.A., and G. B. BENNETT, A.C.A., who have been admitted into partnership. The name of the firm will remain unchanged.

Assistant Official Receiver Appointed

The Board of Trade have appointed Mr Albert Norris Percy to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Manchester, Salford, Ashton-under-Lyne and Stalybridge, Bolton, Oldham, Rochdale and Stockport; for the Bankruptcy District of the County Courts

of Hanley and Stoke-on-Trent, Crewe and Nantwich, Macclesfield, Stafford, Shrewsbury and Newtown. The appointment takes effect from August 19th, 1953.

The Institute of Chartered Accountants in Ireland

The next Preliminary, Intermediate and Final examinations of The Institute of Chartered Accountants in Ireland will be held in Dublin and Belfast on November 17th, 18th, 19th and 20th.

Forms of application can be obtained from the Secretary, at 7 Fitzwilliam Place, Dublin, and intending candidates should send in their applications on or before October 1st.

Corrigendum

'Settlements and Tax'

In the article entitled 'Settlements and tax', by Mr T. J. Sophian in our last issue, it was stated that income from a gift made by a parent to his child will be treated for tax purposes as the parent's income 'while the child remains an infant or unmarried'. This should have read: 'while the child remains an infant *and* unmarried'. If the child satisfies both these conditions at the beginning of a tax year,

standards and are engaged in the practice of their professions may be admitted to practice before the Treasury Department without further examination. With few exceptions, others who wish to be admitted to practice must take a written examination before the Treasury Department. (Part of this written examination are the papers in accounting theory and practice included in the uniform C.P.A. examination prepared by the board of examiners of the American Institute of Accountants.) All applicants for admission to practice must, of course, submit evidence of satisfactory moral character. The Treasury Department's Director of Practice may initiate disciplinary proceedings against any enrolled attorney or agent as a result of which he may be warned, or suspended from practice, or his 'card' entitling him to practice before the Treasury may be revoked permanently.

A Congressional committee which last year investigated the Bureau of Internal Revenue, found evidence of highly unsatisfactory conditions in some parts of the revenue service. In its final report, this Congressional committee alleged laxity in discipline of attorneys and agents enrolled to practice before the Treasury Department, and suggested tightening up of the controls over such persons. In addition, the committee suggested that consideration be given to the desirability of a requirement that persons preparing tax returns for compensation should in some manner be registered and regulated by the Treasury Department. What steps may be taken in response to these recommendations it is too early to predict.

Relations with Lawyers in Tax Practice

Beginning in 1932, and with increasing frequency thereafter, bar associations have objected to various activities of certified public accountants and other non-lawyers in the field of tax practice which the bar associations believed impinged on the practice of law.

Negotiations between representatives of the legal and accounting professions, in an effort to reach agreement on their respective proper roles in tax practice, have been carried on intermittently for more than twenty years. These negotiations have been interrupted from time to time, however, by public conflicts between the two professions.

Certified public accountants and other accountants have been the object of court proceedings instituted by bar associations to restrain the accountants from engaging in certain activities in tax practice which the lawyers believed to constitute the practice of law. Bar associations have also

before committees of Congress in opposition to legislative proposals which might restrict the legitimate activities of accountants in the tax field.

These conflicts between the legal and accounting professions have attracted wide attention and some publicity, which has been relished by members of neither profession.

Several years ago, in a renewed effort to settle differences amicably and quietly, there was organized, at the suggestion of the American Bar Association, the National Conference of Lawyers and Certified Public Accountants. The objective of the Conference is to discuss the mutual problems of the two professions and to endeavour to arrive at rational solutions, as well as to offer to deal with specific complaints that might arise. The principal achievement of the National Conference has been the promulgation of a Statement of Principles Relating to Practice in the Field of Federal Income Taxation. The statement is couched in very general terms, and does not attempt to define in detail the proper activities of lawyers and certified public accountants in the tax field. Indeed, it recognizes that questions of law and accounting are overlapping and intermingled in tax practice. The statement itself includes a few specific examples of situations in tax practice in which certified public accountants should enlist the assistance of lawyers, and others in which lawyers should enlist the assistance of certified public accountants. The statement emphasizes the desirability of co-operation among members of the two professions in the best interests of the public.

Since this statement has been promulgated, there has been no public controversy between the two professions in the courts or the legislatures. State conferences, patterned after the national group, have been formed with the encouragement of the National Conference, and some of them are actively considering general problems and specific complaints which have been brought before them.

It is perhaps too early to say that pursuance of the conference method of negotiation has finally brought to an end open warfare between the two professions, but there is at least good reason to hope that this will prove true.

Foreign Practice

The rise of extreme nationalism in many countries since World War II has, as you know, resulted in a number of countries that restrictions on the practice of accounting by foreigners, and indeed, in some cases,

ORGANIZATION AND ACTIVITIES OF THE ACCOUNTING PROFESSION IN THE UNITED STATES — III

by JOHN L. CAREY

Executive Director, American Institute of Accountants

Accountants' Liability

The legal liability of certified public accountants in the United States has not yet been clearly defined. Broadly it is assumed that in the absence of fraud

an accountant, he is liable only to the extent of a contractual relationship, and in litigation, acquire the compensation of such as surety companies and parties' who rely on the accountant.

principal association of surety companies that the interests of the two groups were closely related, and that it was unfair for surety companies to sue accountants to recover losses under fidelity bonds unless there were some evidence of wilful fraud or bad faith on the part of the accountants concerned. An agreement was entered into between the Institute and more than thirty of the principal surety companies, under which the companies agreed not to institute such suits without prior review of the facts by a panel of disinterested persons, and it was also agreed that if this panel failed to find any fraud or bad faith on the part of an accountant, the surety companies concerned would refrain from legal action.

factual situations tended to impair the independence of certifying accountants:

- (1) Accountants consciously falsified facts.
- (2) Accountant relied on unverified information furnished by client.
- (3) Accountant subordinated his judgment to that of client.
- (4) Employee of certifying accountants did much of the book-keeping for registrant.
- (5) Private audit report to management differed from report made public.
- (6) Close personal relations existed between accountants and management, plus various personal services by accountants for management in their individual capacities (together with other factors).
- (7) Agreement between client and accountant indemnified accountant against liability.
- (8) Accountant posted the general ledger entries governing a month's transactions and made all closing entries.

There has been some concern among account-

accounting and auditing standards, and disclosure of all material facts, to remind its members that the objective viewpoint must be maintained. The Institute does overlap an S.E.C. rule by providing that a member shall not express an opinion on financial statements of any enterprise financed in whole or in part by public distribution of securities if he owns, or is committed to acquire, a financial interest in the enterprise which is substantial, either in relation to its capital or to his own personal fortune; or if a member of his immediate family owns or is permitted to acquire a substantial interest in the enterprise. If the client is not financed by public distribution of securities, but the financial statements on which the member expresses his opinion are to be used as a basis of credit, the member shall disclose in his report the interest as described in the Institute's Professional Conduct No. 10.

pointed out the experience of the accounting profession in the United States.

As mentioned earlier in this paper, the profession in my country was virtually founded by chartered accountants of England and Scotland. If at that time a restrictive or an exclusive policy had been directed towards these men, there is no doubt that the development of the native accounting profession in the United States would have been greatly retarded. As it was, many American accountants were trained by chartered accountants who came to the States, after having had the benefit of nearly half a century of experience in Great Britain. Americans learned from them, and thus were able to develop standards and procedures far more rapidly than trial-and-error methods would have permitted. In a comparatively short time, native American accounting firms were formed in all parts of the country, and even those firms which had originally been founded by British accountants came under the control of native Americans.

We point out to our Latin-American friends, particularly, that similar experience may be expected in their countries if a reasonably tolerant approach is adopted toward the 'invasion' of American certified public accountants during the formation period.

We believe that the policy of live and let live is essential to continued progress.

In this connection, I cannot refrain from mentioning again the tremendous contribution to international understanding and co-operation which the accountants of the United States believe was made by the Sixth International Congress on Accounting.

The Interamerican Conference on Accounting, which has held two sessions - the first in Puerto Rico and the second in Mexico City - has also done a great deal to broaden friendly acquaintance and mutual understanding of common problems among accountants of North and South America. A third Interamerican Conference is scheduled to be held in São Paulo, Brazil, in 1954.

The Personnel Shortage

One of the most pressing difficulties faced by the accounting profession in the United States today is a shortage of well-trained and well-qualified personnel. The shortage is traceable to a number of factors: the low birth-rate during the 1920s and 1930s; demands of the armed forces during the Korean war and the defence policies of the Federal Government; and the competition among various professions for the services of the young. The Engineering profession, for example, has been successful in securing a large number of students for its profession.

programme has not yet been fully developed, but it is expected to include the following steps:

- (1) Speeches by certified public accountants before high-school audiences in all parts of the country. Meetings with high-school principals, teachers, and vocational advisers; widespread distribution of pamphlets among high-school students, explaining the advantages of professional accounting as a career; possibly the preparation of a motion picture designed for high-school audiences, showing the nature of professional accounting work and indicating its opportunities for service.
- (2) Possible extension of aptitude testing at the high-school level, so that students may learn early whether or not they have the attributes which predict a reasonable success in the professional accounting field. A testing programme of this nature at the college level has been sponsored by the Institute for the past eight or ten years.
- (3) Close relations with teachers of accounting at the colleges and universities, preparation of articles in magazines read by college students, communication with vocational advisers and similar activities at the college level.

Public Relations

In getting attention from the public, certified public accountants in the United States are at a great disadvantage in comparison with the older professions of medicine, law, or engineering, for example. In the first place, the accounting profession is younger and, naturally, not yet as well known. Even more important, perhaps, is the fact that the average citizen has no reason to seek the professional services of the certified public accountants, and therefore is unlikely to become personally acquainted with members of the accounting profession. Since certified public accountants are not as numerous as members of the other professions, and perhaps are not likely to become so, there is less opportunity also for extended acquaintance with C.P.A.s among citizens generally.

Yet public opinion is of vital importance in many decisions affecting the interests of certified public accountants. Members of state legislatures, of Congress - even the courts - are influenced to some extent, consciously or subconsciously, by public attitudes on various questions. Labour unions, business organizations, lawyers, bankers, teachers, students, stockholders, and many other classes of persons, have some power over the future of the accounting profession. It seems most desirable that to the extent possible members of these and other groups have at least a rudimentary understanding of the certified public accountant's standards, the nature of his work, its effect on the public interest, and the opportunities the profession offers as a career.

at the conclusion of World War II, a planned public-relations programme, which has expanded quite rapidly since that time.

The objective is simply to communicate, by all available media, the basic information which we would like people to know.

The first step was to get down in writing the essential ideas which we wished to communicate, the audiences whom we wished to address, and the channels through which we might communicate with them. Implementation of the programme has resulted in presentation of speeches before various groups by members of the accounting profession; publication of articles in general magazines and special publications directed to banking and credit groups, investors and various business groups; the preparation of radio and television programmes; the issuance of releases to the press at all suitable opportunities; publication and distribution of special pamphlets on various aspects of the profession's activities; organization of meetings with leaders of groups of special importance, such as financial editors and publishers, congressmen and senators, bankers, lawyers and others.

The work has been carried on by full-time members of the Institute's staff, with the collaboration of outside public-relations counsel compensated on a fee basis, and under the supervision of and with the assistance of committees consisting of members of the Institute.

It is, of course, extremely difficult to measure results in this kind of work. The volume of information distributed in the six-year period is impressive, and it seems to be generally agreed within the profession that the programme has had a favourable impact on the attitudes of important groups toward certified public accountants.

It is recognized that the public relations of the accounting profession depend ultimately on the aggregate impressions formed by citizens generally of the quality of professional services rendered by C.P.A.s. Indeed, part of the programme has been encouragement of individual certified public accountants to act as goodwill ambassadors for the profession as a whole. But it is believed that the efforts of individuals will be more effective against a background of general information which can be made available by organized effort through the professional societies.

CONCLUSION

In the English-speaking world, the accounting profession, in a relatively short time, has come to occupy a position of critical importance in the economy. As the social economic structure becomes more complex, the measurement of income, assets, liabilities and capital becomes a matter of major importance to the public as a whole, in addition to direct participants in financial transactions. Equitable distribution of the fruits of production among all the groups

major problems of society as a whole. Since the fruits of production must be expressed in terms of a common denominator, which is the monetary unit, it seems evident that accounting is an indispensable part of the new society which seems in process of formation.

Credible financial reports of various kinds are essential for the smooth operation of the machinery of credit and investment, the administration of income taxation, the efficient management of business activities, the regulation of business affairs by the government, the peaceful negotiation of wage scales, and financial and economic planning at all levels.

Surely no profession has more challenging opportunities for service to society than the profession which can provide credible financial statements, on which even parties with conflicting interests may rely with confidence.

This profession is fortunate in the tradition which it inherits from its founders in England and Scotland — a tradition of high standards of integrity, technical skill, and personal dignity.

In the United States the accounting profession is keenly conscious of the importance of that tradition. It has encountered many difficult problems, some arising from its own sudden growth, some from the political structure and social customs peculiar to the United States, some from the necessity of adapting itself to rapid and radical changes in the economic system. These problems have not yet been fully solved, but sufficient progress has been made toward a solution to inspire the certified public accountants of my country with confidence in the future.

CONTENTS

	Page
INTRODUCTION	251
ORGANIZATION OF THE ACCOUNTING PROFESSION IN THE UNITED STATES	252
PROFESSIONAL ACTIVITIES	253
ACCOUNTING PRACTICE IN THE UNITED STATES	254
EVOLUTION OF PROFESSIONAL STANDARDS	277
Accounting principles	
Auditing procedures	
Professional ethics	
Taxation and management service	
CONFLICTS AND PROBLEMS	
C.P.A. legislation and public opinion	
Financial reporting	
Auditing procedure	
Government auditing	
Accountancy	
Index	

WEEKLY NOTES

Incorporated Accountants' Course

The residential course of The Society of Incorporated Accountants and Auditors returns this year to Cambridge – last year's venue was Balliol College, Oxford – and members will gather next Thursday afternoon at Caius College and neighbouring King's College for a stay of five days.

The course, which is being presided over by the President of the Society, Mr C. Percy Barrowcliff, F.S.A.A., will be in similar style to those of previous years, a number of papers being presented and ample time given for group discussion and informal meetings. On the final evening, September 21st, a guest night dinner is to be held in King's College Hall.

Speakers have been invited from outside as well as from within the membership of the Society and the addresses to be given are as follows:

'What the Inland Revenue expects of the accountancy profession', by Sir Eric Bamford, K.C.B., K.B.E., C.M.G., Chairman of the Board of Inland Revenue; 'The structure of companies in relation to taxation', by Mr H. Major Allen, Barrister-at-Law, and Mr W. G. A. Russell, F.S.A.A.; 'Practical aspects of saving estate duty', by Mr Geoffrey Tribe, Barrister-at-Law; 'The Finance Act, 1953', by Mr D. O. Bailey, A.S.A.A.; 'Statutory and non-statutory reliefs', by Mr J. R. Paramour, F.C.A., F.S.A.A.; 'Appellate procedure', by Mr F. Heyworth Talbot, Q.C., Mr L. Barford and Mr A. Stuart Allen, F.S.A.A.; 'The nature and purpose of direct taxation', by Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin, Professor in Accounting; 'The organization of an accountant's office in the U.S.A.', by Mr J. William Hope, C.P.A.; 'Taxes and interconnected companies', by Mr Frank Bower, C.B.E., M.A.

Fuel Conservation Report

The report, issued on Monday, of the specialist team which visited America early last year to study the problem of conservation of fuel, heat and energy is wholly technical.¹ It gives many striking examples of fuel wastage, among them the facts that of the coal consumed in this country, 80 per cent of the heat is lost; that in an uninsulated house, one quarter of the heat escapes through the ceilings and roof; that railway locomotives burn annually about 13.5 million tons of high-volatile, large-sized coal at an average efficiency of no more than 6 per cent; and that the entire output of 10,000 miners each year is wasted in the form of unnecessary smoke which, incidentally, is reckoned to cost the nation at least £100 million. The team makes forty recommendations. These include the administration of a national policy under a Fuel and Power Board, the encouragement of research and development of alternative energy sources to coal, the sharing of fuel and power plants by adjacent factories, and closer co-operation between the gas and electricity industries.

¹ Obtainable (5s post free, excluding air mail) from the British Productivity Council, 21 Tothill Street, London W.C.2.

Europe's Dollar Deficit

The experience of Western Europe as a whole in the first five months of 1953, so far as its dollar deficit was concerned, followed a similar pattern to this country's. The general picture, of course, hides some variations of experience between different countries especially in the trend of industrial production.

Overall, Western Europe reduced its dollar deficit by as much as two-thirds – from \$1,713 million in the first five months of 1952, to \$597 million in the same period of this year. Most of this substantial improvement was due to a decline in imports and this in turn was brought about to a very large extent by a fall in prices. A feature of exports has been the good business done with the North American Continent to which sales increased by about 20 per cent. The industrial output which has been behind these higher exports has varied notably between different countries. The best performance over the period under review compared with the same time last year, was put up by Holland and Germany. This country's record is somewhat indifferent and some countries, notably France, Greece, Belgium and Austria, recorded declines.

Western Europe as a whole is thus slowly improving its external position with the assistance of two main factors. First, it is benefiting from falling world prices which as yet affect adversely neither the commodities which the countries concerned, nor their dependencies export; nor has the fall yet seriously reduced the capacity of certain export markets to accept imports. Second, the continued prosperity of the United States and Canada is an increasingly important factor. It would seem that the nearer Europe gets to solvency the more dependent on that market does it become.

Slight Rise in Gold Reserves

At the end of August the gold and dollar reserves of this country were \$2,469 million or \$13 million higher than at the end of July. The increase would have been rather more substantial if there had not been a large repayment on the Canadian credit to meet. This accounted on the debit side for \$39 million and was sufficient to offset the credit balances collected under all other trading headings. American aid brought in \$19 million and there was a deficit of \$6 million to meet on E.P.U.

In the event, the movements during the month were all small. This means that at the start of the third quarter of the year, which is usually a time of strain on the dollar reserves, the factors which have helped to build up the position of sterling over recent months were still holding their own. Exports to North America and the downward trend in world commodity prices while those commodities which earn dollars for the sterling area have remained fairly stable, have continued to sustain a demand for

sterling in the financial centres of the world. The next month or two will show whether the nice balance between the experience of world commodities in general and sterling area ones in particular, can be relied upon to support the reserve position or whether lower commodity prices are going to result in smaller purchases from abroad in foreign and Commonwealth markets which will react on exports.

Attitude Surveys in Industry

Human relations in industry have received a great deal of attention both within industry and among those outside who take it upon themselves, asked or unasked, to study the problem. It is now generally accepted that industrial relations, notably those between management and labour, play a key role in deciding the level of output, amount of absenteeism, rate of labour turnover, and so on. It is becoming more apparent that the issue of efficiency cannot always, if at any time, be resolved into a matter of more or less pay, better working conditions, and the individual willingness to manipulate a machine faster. Complex problems between individuals, between groups, between departments, are woven into the pattern of human relations in the factory along with the strands which concern labour and management directly.

The danger is that in the hour of vindication, when industry is beginning to admit that there is something in all this, the exponents will frighten practical men with their jargon, with the time they need to find some sort of an answer, and their insistence on the complexity of it all. The experts need to be able to offer fairly quick results and to abandon fads and perfectionism when it comes to applying their techniques to cases, if they are to hold their gains.

The attitude surveys by free interviews carried out by the National Institute of Industrial Psychology may be a move in this direction. The technique consists in confidential interviews by an investigator from the institute. The object is to make people talk freely, to list their complaints and to arrange their order of frequency but not to produce from the interviews a series of recommendations. The employees' comments are left to speak for themselves. 'Employees' is taken in the widest sense, including those at executive level. In this connection it is of interest to note that grievances among professional workers in large establishments are often found to be a source of inefficiency though it is often overlooked by the employer.

Farnborough 1953

This year's Farnborough show, which opened this week under the auspices of the Society of British Aircraft Constructors, reflects the change which has come over the aircraft industry in the last twelve months or so. In that time there has been a reshuffle of priorities in the industry's construction programme following the re-phasing of the rearmament programme.

More resources are now available for the production of civil aircraft though military types are in many cases the highest priority. The effect of this change of emphasis is apparent in this year's Farnborough display. There is less emphasis on new prototypes and more on recently developed types which are now in production. This year's show is in fact much more a selling event than its recent predecessors. The world is being told this week that this country is not only at the forefront of design in all types of aircraft but that it can give good delivery dates as well.

Advances Continue to Fall

The clearing banks' statement for August shows further declines in both advances and commercial bill holdings. Advances are now running at £78 million less than a year ago and acceptances are £62 million lower. There is thus little sign in the figures of a relaxation of the terms on which advances are available. Both on the evidence of advances and accommodation on commercial bills disinflationary forces are still at work.

On the other hand, deposits have begun to rise again. 'True' deposits were £28 million higher than in July and £174 million above the level of a year ago. There is in fact no sign of a change of trend in the ever-increasing amount of borrowing by the Government from the banking system. Over August, Treasury bills went up by £92 million, making an increase of £101 million on the year. Investments were little changed on the month but they were £222 million higher than in August a year ago. Inflationary potential is thus still coming from the public sector of the economy.

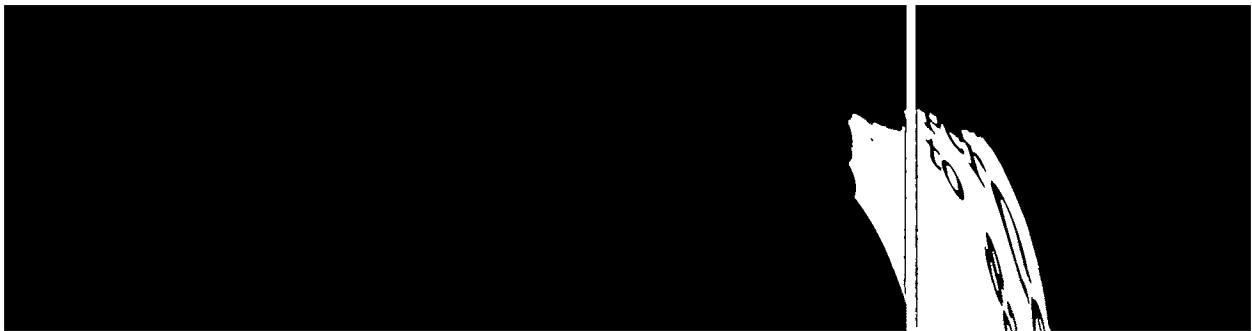
Unemployment at Mid-Year

In July there is usually a slight increase in the total of unemployed owing to the registration of school-leavers. This year has been no exception. But this influx of young workers into the labour market finds the general employment situation basically good. Over the month ended August 10th, for example, there was a slight decrease in the numbers temporarily unemployed, the figure being 11,000 compared with over 15,000 in July and 12,000 in June.

There was an increase in total unemployed owing to this influx of juveniles and also owing to seasonal changes in certain industries. Taking the month of July, numbers in employment actually increased—24,000 in fact—and it has to be recorded that they were all women. The main increases were in agriculture, food, drink and tobacco and in the distributive trades, while declines of a seasonal nature were recorded in coal-mining, engineering and building.

The total unemployed early in August was 1.4 per cent of the total employed compared with 1.3 per cent in July and 1.9 per cent in August 1952. Such a percentage represents a state of full employment, not

... from the
street, SW1.



CURRENT LAW

International Law: Intestacy

Barnard, J., gave judgment for the State of Spain in the action *In the Estate of Maldonado, decd., State of Spain v. Treasury Solicitor* (*Solicitors' Journal*, June 27th, 1953). The deceased, who was domiciled in Spain, died intestate in Spain without next of kin and leaving estate in England. The State of Spain claimed the estate as sole and universal heir by Spanish law; the Crown claimed the estate as *bona vacantia*.

Barnard, J., pointed out that in the case of intestacy movable property was to be distributed according to the law of the domicile of the intestate; this was English law and so Spanish law governed the matter. Spanish law provided that in circumstances such as the above the State should inherit. His lordship accepted the view that the State of Spain was the true heir; there was therein nothing repugnant to English law or to English public policy. He granted letters of administration accordingly.

International Law: Charter-party

In *The 'Assunzione'* (*Solicitors' Journal*, July 11th, 1953), Wilmer, J., held that Italian law applied in the following circumstances. A cargo was shipped in France for Italy on a charter-party in English, dated Paris, October 7th, 1949, pursuant to which a bill of lading, in French, of an Italian vessel was issued. The charter-party was negotiated between brokers in Paris and Genoa and freight was payable in Italy in lire. There was nowhere any specific indication of the law which was intended to govern in the case of dispute.

The cargo was damaged and delivered short in Venice, and the consignees brought an action against the shipowners, the latter contending that Italian law should apply, that being the law of the flag. The plaintiffs contended that the law of the contract (French) was the proper law.

The learned judge found for the former on the ground that in all the circumstances of the case, Italian law would have been intended by ordinary, reasonable and sensible business men if their minds had been directed to the question. That would give business efficacy to the contract and claims would be most likely to arise in Italy; there would be judgment, therefore, for the shipowners.

Bankruptcy

On August 22nd, 1952, a local authority served a bankruptcy notice on a debtor, who filed an affidavit in opposition. On September 1st, the Registrar fixed the hearing for September 10th and extended the duration of the bankruptcy notice accordingly. On September 10th the application of the debtor was dismissed, whereupon he appealed on October 18th to the Divisional Court, which allowed his appeal. In February 1953 the Court of Appeal

decision of the Divisional Court and the debtor then sent to the local authority a cheque for the appropriate amount, which was refused. A month later, the authority filed a petition in bankruptcy and the Registrar made a receiving order on May 1st, 1953.

Harman and Upjohn, JJ., found that the act of bankruptcy was complete when the Registrar made his order dismissing the debtor's application on September 10th, 1952. It was not, therefore, permissible to found a petition more than three months after. The debtor's notice of appeal of October 8th, 1952, and the order of the Divisional Court of November 10th, 1952, did not operate to suspend the running of time under Section 4 of the Bankruptcy Act, 1914, because, by Rule 141 of the 1915 Bankruptcy Rules, only the Registrar could extend the time for compliance with a bankruptcy notice. The petition was thus out of time. (*Re a Debtor (No. 48 of 1952) (No. 2), Ex parte the Debtor v. Amptill Rural District Council and Another* (*Law Times*, July 17th, 1953).)

Carriage of Goods by Sea: Deck Cargo

The plaintiffs in *Svenska Traktor Aktiebolaget v. Maritime Agencies (Southampton) Ltd* (*Solicitors' Journal*, July 25th, 1953) were consignees of tractors shipped from Southampton to Stockholm, the defendants being the charterers. Some of the tractors were carried on deck and one was washed overboard during the voyage. The bill of lading provided that the terms etc. of the Carriage of Goods by Sea Act, 1924, were to apply; it provided also that the owners should be at liberty to carry on deck without responsibility therefor.

Pilcher, J., held that the reservation of liability for deck carriage did not enable the carriers to avoid liability unless the bill of lading stated that the cargo was being so carried, which it did not. The tractors were thus 'goods' within the meaning of Article I (c) and, accordingly, subject to Article III, Rule 2, by which the shipowners were bound properly and carefully to load and discharge the goods. The tractor was lost in weather which was not abnormal and the carriers were liable.

Power in Will to Postpone Sale

In *Rooke; Rooke v. Rooke* (*Law Times*, May 29th, 1953), a testator directed that

'if my house, farm lands and premises known as Woodhouse . . . and my live and dead stock have not been sold at the time of my decease to as soon as possible after my death sell the same . . .'

Harman, J., held that this direction was sufficiently imperative to override the discretionary power to postpone and that thus there was a 'contrary intention' within Section 25 of the Law of Property Act, 1925.

FINANCE AND COMMERCE

Stock-markets are making a firm approach to what promises to be an exceptionally interesting autumn period. With the first of the Serial Funding issues coming due for redemption in November and with Treasury bill borrowing running at a very high level, a Government funding operation is generally anticipated. In addition, the new issue market has to face the prospective heavy issues of steel shares as well as the borrowing requirements of Colonial and Municipal Governments.

Tootal Accounts

Early this year, the business of Tootal Broadhurst Lee Company Ltd. was reorganized. The company became solely a holding concern under the name of Tootal Ltd and the operation of the business was handed over to subsidiaries formed for that purpose. There is now 'a combination of the central control of policy with the maximum devolution of responsibility and executive action.'

One result of the reorganization is an alteration in the method of treating certain items in the books. The most important item is stock-in-trade. For the purpose of the acquisition of the stock by the new operating companies, it was necessary, the chairman states, to employ the basis of valuation usually accepted by the Inland Revenue, namely cost or market value as understood by the Revenue. This method was followed in valuing closing stock at June 30th, 1953.

The opening stock, however, had been valued, the chairman points out, according to the methods habitually employed. In order, therefore, to avoid the distortion that would otherwise have occurred in the result by 'this artificial inflation of the trading profit', the surplus arising through the change in the method of stock valuation has been carried to a stock reserve.

No Such Figure

These 1953 accounts cover nine months' trading under the previous structure and three months' trading under the new, and this fact, the chairman emphasizes, has to be borne very much in mind when studying them. A case in point, he cites, is the item 'Loss Subsidiary Companies £200,000', which, he explains, is the overall result of a complete year's trading by the subsidiaries created before the reorganization and three months' trading by those subsequently created. The major part of the loss during the three months' period is attributable to the same business that made the major portion of the trading profit in the previous nine months, a seasonal fluctuation which 'is neither unusual nor disturbing to us.'

We fear that some readers of these accounts, however, may be fogged by this reference in the chairman's own quotation marks to the £200,000

item. No such figure appears in the accounts. There is, in the consolidated profit and loss account, an amount of £189,722 which, subtracted from 'Tootal Limited, £730,398', leaves £540,676 under the main heading of Consolidated net profit after taxation.

The clue is in the directors' report, where, from the £540,676 is subtracted £10,278 in respect of 'amount retained by subsidiary companies (including the sum of £200,000 provided by Tootal Limited for loss sustained by subsidiary companies)'.

Maybe it is a case where those who have lived with the books and the figures cannot quite visualize how the final accounts will be seen by shareholders.

Pye

The annual publication of Pye Ltd, makers of radio and television receivers, scientific instruments etc., has come to be regarded in some quarters as 'rather too much.' The critics see it as the chairman's opportunity to get the bees in his bonnet off his chest, if this mixing of metaphor may be permitted. This year, Mr C. O. Stanley gives a page to a consideration of the accounts and many more pages to a humorous article and illustration from *Punch*, to airing his views on commercialism; on purchase tax; on the workings of the Wireless Telegraphy Act and the power it gives to the Postmaster-General - too much, in Mr Stanley's view - to colour television; and to transistors.

May we suggest, however, that there is a lot to be said for Mr Stanley's appeal to his readers to 'keep our sense of humour and our sense of proportion.' Company chairmen in these days are wont to range over a wide field far outside the immediate scope of their business. If they express their personal opinions in a seemingly provocative manner, what harm! The time to cry halt is when it goes too far and that, we suggest, is when the exception becomes the rule.

Incidentally, the article on transistors is extremely interesting. Mr Stanley intends in the years to come to have much of the Pye equipment designed around transistors, which, he believes will open a new age in the science of electronics.

To describe what the transistor is, in language for ordinary people to understand is an impossibility, says Mr Stanley. What it does is to face the radio valve with 'its first rival for the vital centrepiece of radio design.' The germanium transistor, using a particle no larger than a pin's head, occupies a space only about one-tenth of the volume of the smallest sub-miniature valve.

The Other Nine

We referred last week to ten balance sheet items which a letter in the Press maintained had made the company 'horse confounded' in company accounts.

We mentioned one of them - Surplus arising on consolidation - in our note on the speech by Mr W. H. Higginbotham, F.S.A.A., F.S.S., the chairman of Edgar Allen & Co Ltd. For those readers who asked, and those whose queries may have been unvoiced, here are the other nine:

'Difference between the cost of acquisition of subsidiary companies shares and their par value.'

'Net premium on purchase of shares of subsidiary companies less undistributed profits at date of acquisition.'

'Acquisition reserve arising on the incorporation in the consolidated balance sheet of the tangible assets and liabilities of subsidiaries at book value.'

'Capital reserve including net excess value of the assets in the balance sheets of subsidiaries over cost of acquisition by the parent company.'

'Excess of net tangible assets of subsidiary companies over the stock issued on acquisition.'

'Goodwill at cost including excess of cost over par value of investment in subsidiary companies.'

'Net excess of par value over book value of investments in subsidiary companies.'

'Net premiums on acquisition of shares in subsidiary companies less amounts written off.'

'Difference between the value at which inter-company holdings of shares are taken as assets into the balance sheets and their par value less undistributed profits at the date of acquisition.'

Some, or all, of these items may seem simple to accountants. The difficulty, like Mr Stanley's transitors is to explain them in simple language for ordinary people.

Money Market

Applications for Treasury bills on September 4th totalled £394,575,000. The market bid was reduced to £99 8s 1d and 66 per cent of requirements was obtained, the average discount rate being £2 7s 7.43d per cent. Reduction of the market's bid by 3d brought a sharp increase in the discount rate. This week's offer is maintained at the record high level of £300 million.

TOOTAL LIMITED Balance Sheet as at June 30th, 1953

	£	£		£	£
Share Capital Authorized:			Trade Investments - at Cost		57,966
400,000 5 per cent Cumulative Preference Shares of £1 each	400,000		Subsidiary Companies (See Note 3 below)		
800,000 Ordinary Shares of £1 each	800,000		Investments	3,151,469	
200,000 Employees' Shares of £1 each	200,000		Amount Owing	2,521,980	
	<u>£1,400,000</u>			5,673,449	
Share Capital issued and fully paid:			Less Provision for Loss sustained in Subsidiary Companies	241,610	5,431,839
400,000 5 per cent Cumulative Preference Shares of £1 each	400,000				
800,000 Ordinary Shares of £1 each	800,000		Current Assets		
146,359 Employees' Shares of £1 each	146,359	1,346,359	Loans	1,623	
			Loans to Trustee for the purchase of Employees' Shares	3,002	
Revenue Reserves and Unappropriated Profit:			Investments:		
General Reserve	1,200,000		Quoted (Market Value £13,535)	£7,035	
Contingency Reserve	1,532,131		Money on Deposit	120,000	127,035
Stock Reserve (including reserve for unrealized profits on trading within the group) (See Note 1 below)	1,376,996		Cash at Bank and in Hand	3,063,573	3,195,233
Pension Schemes Reserves	370,000				
Profit and Loss Account - Balance	1,642,943	6,122,070			
		7,468,429			
United Kingdom Taxation (See Note 2 below):					
Reserve for Accruing and Future Taxation	584,452				
Provision for Accrued Taxes after deducting Excess Profits Tax Post-War Refund	352,024				
Current Liabilities:					
Creditors					
Dividend and Coronation Bonus (net) proposed payment					

A. V. SYMONS, } Directors.
KENNETH LEE, }
DENIS B. TRACEY, Secretary.

TOOTAL LIMITED AND
Consolidated Balance

1952									
£	£							£	£
	1,343,932	Tootal Limited							1,346,359
		Share Capital issued (see separate Balance Sheet)							
		Capital Reserve							
	93,316	Amount arising out of holdings in Subsidiary Companies including profit on Sale of Works of Subsidiary company							93,448
		Revenue Reserves and Unappropriated Profits							
1,280,000		General Reserve						1,280,000	
1,575,002		Contingency Reserve						1,572,943	
		Stock Reserve (including reserve for unrealized profits on trading within the group). (See Note 1 on Tootal Limited Balance Sheet)						1,376,996	
1,721,620		Pension Schemes Reserve						370,000	
120,000		Profit and Loss Account - Balance						1,775,578	
1,073,525	5,770,147								6,375,517
	7,207,395								7,815,324
	4,117	Outside Shareholders							
		Interest in Capital and Reserves of Subsidiary Company							5,494
		United Kingdom Taxation (See Note 2 on Tootal Ltd Balance Sheet)							
222,317		Reserve for Accruing and Future Taxation						693,694	
1,955,917	2,178,234	Provision for Accrued Taxes after deducting Excess Profits Tax Post-war Refund						360,858	1,054,552
		Current Liabilities and Provisions							
9,222		Bank Overdraft overseas (partly secured by mortgage of stock of overseas branch)						7,180	
82,842	(General Provision)	Provision for Employees' Compensation (Argentine)						1,823	
621,450		Creditors and Accrued Charges						877,520	
80,707		Loans						44,005	
74,335	868,556	Dividends and Coronation Bonus (net) proposed for payment						130,124	1,060,652

Notes:

- A. The amount of contracts for Capital Expenditure not provided for is £101,682. (1952 £242,637.)
 B. There are contingent liabilities amounting to £59,950 in respect of Bills discounted.
 C. A portion (not yet due or ascertained) of the loss sustained in Subsidiary Companies is covered by guarantee.

£10,258,302

£9,936,022

Consolidated Profit and Loss Account

1952									
£	£							£	£
	259,313	To Expenses Chargeable against Trading Profits							
	11,004	Depreciation of Fixed Assets						271,237	
	79,114	Past Directors' Retiring Allowances						16,715	
	17,438	Directors' Emoluments						71,827	
		Sundry Provisions						—	
	366,869								359,779
	1,390	.. Proportion of Profit of a Subsidiary company attributable to outside shareholders						1,377	
		.. Expense of Reorganization, including cost of formation of subsidiary companies						44,178	
	466,777	.. Consolidated net Profit carried down						868,384	
	835,036								1,273,716
		.. United Kingdom Taxation on profit for year to June 30th, 1953:							
91,000		Profits Tax						70,000	
150,988		Income-tax						257,706	
	241,988								327,706
		.. Consolidated net Profit after Taxation carried							
339,138		Tootal Limited						730,398	
114,349		Less Loss Subsidiary Companies						189,722	
	224,789								540,676
	£466,777								£868,382
£	£	To Amounts transferred to Reserves:						£	£
	13,789	Revenue Reserve - Tootal Limited Pension Scheme						250,000	
	1,384	Revenue Reserve - Subsidiary Companies						1,064	
		Capital Reserve - Subsidiary Companies						132	

SUBSIDIARY COMPANIES

Sheet as at June 30th, 1953

£	1952	£		£	£	£
		800,395	Fixed Assets			
136,316			Land and Buildings at Cost or at the net amount standing in the Companies' Books at July 1st, 1948		816,591	
1,042			Less Depreciation and amounts written off	169,103		
		137,358	Sums applied out of Cotton Spinning Re-equipment Subsidy	1,042		
		663,037			170,145	646,446
		1,741,114	Machinery, Plant and Equipment at Cost or at the net amount standing in the Companies' Books at July 1st, 1948		1,950,361	
557,327			Less Depreciation and amounts written off	746,737		
16,225			Sums applied out of Cotton Spinning Re-equipment Subsidy	50,899		
		573,552			797,636	
		1,167,562				1,152,725
		1,830,599				1,799,171
		57,853	Trade Investments - at Cost			57,966
		1,888,452				1,857,137
			Current Assets			
808,017			Debtors		1,134,566	
4,926,726			Stocks, Materials and Stores at estimated cost or market value		3,008,468	
43,299			Loans		34,099	
2,508			Loan to Trustee for the purchase of Employees' Shares in Tootal Limited		3,002	
			Investments:			
10,107			Trustee Securities (at Cost) (Market Value £8,703)	10,107		
7,035			Other Investments (quoted) (Market Value £13,535)	7,035		
874			Other Investments (unquoted)	863		
120,000			Money on Deposit	120,000		
					138,005	
2,451,284			Cash at Bank and In Hand		3,760,745	8,078,885
		8,369,850				

Notes:

Note:
Foreign Currencies have been converted to sterling on the following basis:

Fixed Assets - At the rates ruling in the year of acquisition.

Current Assets and Liabilities - At the rates ruling at the date of the Balance Sheet.

£10,258,302

£9,936,022

for the year ended June 30th, 1953

1952		1951	
£	£	£	£
783,000	By Trading Profit (after deducting Employees' Bonus)	1,227,964	
25,614	„ Profit on Sale of Capital Assets	21,533	
6,938	„ Profit on Sale of Investments	—	
2,212	„ Provision no longer required	19,058	
	„ Income from Investments (net):		
2,777	Trade	2,843	
5,159	Other	2,318	
9,336	Interest on Tax Reserve Certificates	—	
		5,161	
17,272			
835,036		1,273,716	
466,777	By Consolidated net Profit brought down	868,382	
£466,777		£868,382	
£	£	£	£
339,138	By Consolidated net Profit after Taxation brought down:	730,398	
114,349	Tootal Limited	189,722	
	Less Loss Subsidiary Companies		
224,789		540,676	
—	„ Overprovision for taxation on Profits up to June 30th, 1949, including Excess Profits Tax Post-war Refund	553,447	
12,520	„ Exchange Difference on Consolidation of Accounts	—	
	(Exchange difference on consolidation of accounts amounting to £3,123 has been deducted from Contingency Reserve)		
820,669	„ Balance of Unappropriated Profits brought forward:	949,972	
115,555	Tootal Limited		
	Subsidiary Companies (after adjusting provision made by Tootal Limited, amounting to £235,000 (1951 - £110,000) for loss sustained in subsidiary companies)	123,553	
936,224		1,073,525	
£1,173,533		£2,167,648	

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Remuneration of Financial Advisers

SIR, - In your issue of August 29th there appeared an article entitled 'The provincial accountant - I: as financial adviser', by Mr John Unett, A.C.A. In this article Mr Unett suggests towards the foot of the first column that there is no reason why the fee charged for the advice indicated should not be based on results. In fact, the Council has made a statement on this subject which was published in *The Accountant* of June 14th, 1952, and which is included as supplement 73 to the *Members' Handbook*. The statement reads as follows:

'Remuneration of Financial Advisers to Companies:
'The Council has had under consideration the question of the basis of remuneration of members who, as practising accountants, may act as financial advisers to companies. In the opinion of the Council, it is undesirable for the remuneration of a member for such services to be based on a percentage of profits of the company.'

Yours faithfully,
ALAN S. MACIVER,
Secretary.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.

Moorgate Place, EC2.

A Proposed National Association of Practising Accountants

SIR, - In your issue of August 15th you published a letter addressed to the Councils of the bodies represented on the Co-ordinating Committee about a proposed new accountancy organization together with the reply of the secretary of The Institute of Chartered Accountants in England and Wales. I give below the text of a communication sent by the Society to Mr Sproull on August 17th.

Yours faithfully,
I. A. F. CRAIG,
Secretary.

THE SOCIETY OF INCORPORATED
ACCOUNTANTS AND AUDITORS.

Incorporated Accountants Hall, WC2.

R. SPROULL (Senior), ESQ., C.A.,
28 Great Queen Street,
London, WC2.

Dear Sir,

Your letter dated July 27th, 1953, on the subject of the proposed formation of the 'National Association of Practising Accountants' has now been considered by the Council of the Society.

The Council is of opinion that the reasons advanced for the formation of this new Association indicate

protecting the interests of the Society's members rests on the Council, which, on all matters affecting the profession as a whole, acts in close association with the other recognized accountancy bodies. Accordingly, members of the Society will be informed that its Council strongly deprecates the formation of a further body.

Yours faithfully,
C. EVAN-JONES,
Deputy Secretary.
THE SOCIETY OF INCORPORATED
ACCOUNTANTS AND AUDITORS.

Schedule E: Expenses

SIR, - Referring to 'Arturo's' letter in your issue of August 15th, concerning the rejection by the Inspector of Taxes of a client's expense item for a chauffeuse, I suggest that the question of expense allowances calls for wider review.

The needs of 'each and every occupant of the particular office' might vary according to the policy or disposition of the employer or the mutual attitude of employer and employee in pursuit of the job which called forth the expense, and therefore Lord Blandesburgh's words 'which each and every occupant of the particular office is . . . necessarily obliged to incur in the performance of the duties' suffice to uphold 'Arturo's' case rather than refute it so long as there was no agreement prohibiting his client from any set mode of travel.

Unless so excluded, any or all means of transport are open to a person in the position of 'Arturo's' client. A firm paying its representative so much per week for expenses over and above salary and commission is not concerned whether it is used on train, coach, privately hired car or their employee's own car, whether he drives himself or gets someone else to do so. The cost of a chauffeur or chauffeuse is, as well as the car, in effect an item of expense for hire in the expediency of the job.

If the representative adopts the latter course whoever he engages becomes the subject of an expense necessarily incurred in carrying out the duties and in this case medical advice provides the most necessitous of reasons. Even without it a person unable or unwilling to drive himself must, if he goes by car, employ someone unless his employer does so for him.

The fact that this, in the mind of the Inspector, is of a personal nature does not make it anything less than a bona fide necessity of the employment. The learned legal lord when using the words 'and to such expenses only' may have envisaged a personal whim or device on the part of a claimant as distinct from a cause of necessity such as we have here.

ways for some decades. The Revenue have already benefited by the tax deducted from the wife's salary under P.A.Y.E. just as they would have done had she been otherwise employed.

The Inland Revenue might well re-examine the decisions that have been quoted and relied upon for refusing any allowance in respect of salary paid to a wife in these circumstances, the rule itself being sufficient to permit the granting of it.

Rather than accept the quoted decisions as being irrefutably loaded against his client your correspondent might find that upon further professional scrutiny a disallowance such as this carries no authority in law and should only be sustained if some future statutory amendment is passed specifically to that effect.

Yours faithfully,
WILLIAM NEWTON.

East Molesey, Surrey.

SIR, - Mr Harman's letter in your issue of August 22nd, must be calculated to create alarm and despondency in the minds of all employers. For some years my firm has employed staff and we have always charged their salaries against our profits for income-tax purposes. It is with some concern that I read the suggestion that the expense of employing a chauffeur is incurred in order to equip a car to perform duties.

Does Mr Harman suggest that employees of an accountancy practice equip the practice to carry out their work, or would he be prepared to agree that they do actually perform some duties themselves?

Yours faithfully,
E. J. N. NABARRO.

London, SW1.

Auditing Tests

SIR, - I should be glad if you would kindly allow me to reply to the letter of 'Xela' in your issue of September 5th, and to point out that according to the probability table given in my article on 'Auditing tests', one error in 98 items, or four in 200, does not indicate 4 per cent of error in the whole, but that overall, with a 90 per cent probability, there are *not more than 4 per cent of errors*, which is very different. There may be much less than 4 per cent, but that figure is a ceiling which is only likely to be exceeded in less than 10 per cent of the cases tested. The apparent anomaly mentioned in his last paragraph is an illustration of the fact that the larger the sample, the less will it differ from the whole at any given level of probability.

On reading the letter from 'Incorporated Statistician' in the same issue, I cannot help but feel that his warning against the indiscriminate use of statistical tests is more of an indictment of conventional methods than of my proposals. He deprecates the use of statistical methods by an auditor as fraught with dangers for those without proper knowledge of the laws of probability, and yet, apparently, approves the conventional practice of choosing samples at random (haphazard, perhaps, than random).

izing from the results of the tests solely on 'mental impressions conveyed by circumstantial evidence', which impressions will doubtless vary according to whether the individual auditor is cautious or sanguine by temperament.

No one will dispute that when such impressions arouse suspicion they must be followed up no matter how small the probability, but it is difficult to see in what way it is unwise to suggest that present methods should be subjected to statistical scrutiny, and if need be, revised to raise them to the standards of a reliable statistical test.

Whether a *Poisson* distribution or some other will eventually be found most suitable is a matter which can only be seen when we have obtained more experience of the statistical analysis of auditing samples. In the meantime it seemed as reasonable a starting point as any.

I am not attempting to impose a cut-and-dried technique on top of existing auditing procedure, but to arouse interest in statistical methods in the hope that by experience and experiment we might find they were of as great a benefit as they have been in production quality control. Surely no statistician who has faith in his methods will quarrel with this!

Yours faithfully,
K. W. WALKER.

Leicester.

Balancing Charge Anomaly

SIR, - A company whose financial year ended on December 31st, 1952, purchased a motor van on April 25th, 1952, and sold it at considerable loss on December 29th, 1952.

It seems quite clear from Section 292, Income Tax Act, 1952, that a balancing allowance can only be given when an initial allowance or an annual allowance has previously been allowed. Since the asset was not in use at December 31st, 1952, no annual allowance is due, and because it was purchased after April 5th, 1952, no initial allowance is due.

I wrote to the Inspector of Taxes informing him that it appeared to be an anomaly, which might not have been visualized when the initial allowance was cancelled in respect of all assets purchased after April 5th, 1952, and asking if he could consider submitting the facts to the Board of Inland Revenue for concessional treatment. He has replied that this treatment has already been adopted in other cases, and he does not think it would be proper to apply for concessional treatment in an individual case.

I would be glad to learn of readers' opinions on the matter, and whether anyone is aware of a concession having been given in similar circumstances.

Yours faithfully,
R. H.

Registration

SIR, - The sole stumbling-block to closing our profession seems to be that due to the period of transition; it is contrary to democratic principles and to our sense of fair play to prevent existing unqualified

practitioners from practising, or to enforce them to sit examination by one of the recognized bodies. It would be unjust to admit any such into one of these bodies without the usual examination.

There is, therefore, only one remedy, which is tidy and not likely to produce any hardship; immediately and without much warning to pass a Bill closing the public side of the profession and making legal recognition of only four accountancy bodies: the Institute, the Society, the Association, and a new one to be called the 'Union'. By January 1st, 1954, all practitioners not members of one of the first three bodies named should be required to enrol as members of the 'Union', which would exercise the usual disciplinary powers and control. The word 'practitioner' might be defined as only the person who has been in full-time practice since (say) January 1st, 1953. The 'Union' would not admit any new members *after* January 1st, 1954. All persons then wishing to enter the field of public practice in accountancy would have to pass the examinations of the Institute or Society or Association. The 'Union' would thus cease to exist when its longest-lived member (as enrolled by January 1st, 1954) had died.

Such a scheme is painless and may hardly be bettered: normal criticism would improve its working. The three recognized bodies will then have succeeded in closing the door with a logical sanity for which as a profession we shall one day be noted.

Yours faithfully,
HARRICO CERTIFIED.

Section 20: Finance Act, 1953

SIR, -

'SUBVENTION . . . a grant of money for the support of an object or institution.' (O.E.D.)

No better word could have been used to describe the transactions which Section 20, Finance Act, 1953, is intended to facilitate. The word, however, is a noun and complete in itself and it seems a pity that the parliamentary draftsmen should have seen fit in the Act to use it in an adjectival fashion preceding the word 'payment'. May I therefore suggest that those of us in a position to influence the wording used in published accounts and directors' reports, including you, sir, should have regard to the existing adequacy of the English language in preference, on still one more occasion, to following blindly the wording of an Act? In other words can we all agree to save a quite unnecessary word in referring, where appropriate, to a 'subvention' rather than a 'subvention payment'.

East Cowes, I.W.

Yours faithfully,
PAUL D. IRONS.

[We confess to following the words of the Act, but not to following them blindly. While sharing our correspondent's desire for brevity and his esteem for the English language we are nevertheless obliged to be accurate.

Section 20, as its rubric shows, is concerned with *payments*. The word 'subvention' does not necessarily

connote payment. Of the several definitions given in the *Oxford English Dictionary* our correspondent has naturally cited the one which best supports his case. We might do the same with the word 'grant' which appears in his definition. Again quoting the *Oxford English Dictionary* it can mean 'Promise. Admission. Also what is agreed to; promised, etc.'. That turns our correspondent's definition into 'a promise of money for the support of an object or an institution', which would not qualify for relief. Perhaps we had better stick to subvention payment. - EDITOR.]

Smoking in Examination Rooms

SIR, - I suppose the question of smoking during examination could be an important one for some people. Here we have the non-smoker pleading for the opportunity for candidates to smoke if they wish to, and a smoker saying that he found no time to smoke anyway!

Mr Haigh's plea (August 29th issue) reminds us of the story about Nimzovitch, the master chess player, who during an important match is reputed to have sat studying his board for even longer than usual without making a move. Getting up from his seat, he approached the controller and said: 'I really cannot play whilst my opponent is smoking. Would you mind asking him to desist.' When approached, the opponent immediately concurred. After which Nimzovitch sat studying the board for another long period. This was followed by another approach to the controller. 'What is the matter?' said this gentleman, 'your opponent is not smoking, is he?' 'No,' replied Nimzovitch, 'but I can't play - I feel he *wants to smoke*.'

Yours faithfully,
Southgate, N14. S. F. RUSSELL, F.C.W.A.

SIR, - As a smoker who has resorted to munching glucose sweets, chewing gum and even blotting paper during the Institute's examinations, I heartily appreciate the altruistic sentiments of Mr Haigh, (August 29th issue).

But after practical consideration, I think that smoking would make the examination rooms more stuffy and dirty than ever, and although the Institute is fairly generous with its blotting paper, can we really expect the provision of thousands of ashtrays for examination candidates?

Yours faithfully,
FINALIST, May '53.

'Ordered Odds'

SIR, - I congratulate you on your article under the above heading in the issue of August 22nd. You refer to the card game of bridge 'depending so largely on skill (after the alarming chances of the deal)'. This reminds me of a statement I once heard that out of the hundreds of different kinds of games of cards the only one in which chance is entirely eliminated and consists, therefore, of 100 per cent pure skill is 'an

Yours sincerely,
A. G. McBAIN.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, September 2nd, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-President; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Messrs C. W. Boyce, C.B.E., P. F. Carpenter, G. R. Freeman, P. F. Granger, Sir Russell Kettle, Messrs S. J. Pears, P. M. Rees, M.C., L. W. Robson, T. B. Robson, M.B.E., G. F. Saunders, G. L. C. Touche, and A. D. Walker, with the Secretary and Assistant Secretaries.

The following resolutions were passed:

(1) That certificates of practice be issued to the following six associates who have commenced to practise:

† Barber, Stanley Vernon; 1952, A.C.A.; 17A Anchor Road, Aldridge, Walsall.
Butterfield, John Anthony; 1951, A.C.A.; (Russell & Bishop), 8 New Street, Leicester.
Clark, John Edward; 1948, A.C.A.; (*Parker, Edwards & Co), 11 Lowther Street, Whitehaven.

† Practice is not member's main occupation.

† Clarke, James Gordon, B.A.; 1952, A.C.A.; 78 Halesowen Street, Blackheath, Birmingham.

Griffiths, Iain Coulson; 1952, A.C.A.; (Hale & Hale), 20 Brazennose Street, Manchester 2.

Newman, Harry; 1927, A.C.A.; (*Bernard Phillips & Co), 76 New Cavendish Street, London, W1.

(2) That seven associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That two hundred and twenty-five applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31).

(4) That one hundred and eighty-three applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before September 15th will appear in *The Accountant* of September 19th.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 8th, 1953.

The committee heard formal complaints preferred by the Investigation Committee in respect of each of thirty-one members of the Institute that the said member had failed to pay the subscription payable by him under clause 11 of the Supplemental Royal Charter and bye-law 42 in respect of the year 1953 for four months after the same had become due so as to render himself liable under clause 21 (7) of the Supplemental Royal Charter to be excluded from membership or to be suspended for a period not exceeding two years from membership.

In the case of another member against whom a complaint was pending on another count the committee deferred the hearing of a complaint in regard to the payment of his subscription *sine die*.

In the case of the following ten members the committee found the complaint proved and ordered that the said members be excluded from membership of the Institute:

William Bruce Thornton Bate, D.S.C., A.C.A., Trewether, Lostwithiel, Cornwall.

George Arthur Jebb Brewer, A.C.A., 75 Booth Road, Hendon, NW9.

Sir Charles Duncan Macnair Campbell, B.T., M.A., A.C.A., Flat 2, 15 Lindfield Gardens, Hampstead, NW3.

Archibald Beatty Crawford, A.C.A., c/o China Soap Co Ltd, 18 Chung Shan Road, F. (Zone O).

Charles Louis Dornton Duff, F.C.A., 69 Ship Street, Brighton, 1.

Francis Gerald Hope, F.C.A., Cromar House, Broad Street, Wokingham, Berkshire.

Ian Milroy, A.C.A., Lawrence Scudder & Co, 333 Candler Buildings, Atlanta, Georgia, U.S.A.

George Smith, F.C.A., Prince's Buildings, 81 Dale Street, Liverpool, 2.

Norman Huntley Turnbull, A.C.A., Chief Accountant, *Newcastle Chronicle & Journal Ltd*, Kemsley House, Newcastle upon Tyne, 1.

Francis Roy Wibberley, A.C.A., c/o Williams Deacon's Bank Ltd, St Ann Street, Manchester.

In the case of four members the committee found the complaint proved and ordered that the said members be excluded from membership of the Institute but in view of special circumstances the committee further ordered that such findings and decisions be suspended so as to take effect only from August 31st, 1953, if a remittance of the amount the subject of the formal complaint should not have been received before that date.

Two of the four members concerned remitted the amount due within the period allowed and exclusion from membership did not take effect. In the case of the following two members exclusion from membership took place with effect from August 31st, 1953.

John Stanley Goodwin, A.C.A., c/o Binny & Co,

(Madras) Ltd, Post Box No. 66, Madras, South India.

Robert Alan Procter, A.C.A., c/o Anderson Hodgson & Co, 360 Collins Street, Melbourne, Australia.

In the case of four members the committee found the complaint proved and decided that they be reprimanded but the committee considered that there existed in each case special circumstances which justified the omission of the name of the member from the publication of the finding and decision.

In the case of four members, the committee found

the complaint proved and decided that each such member be admonished but the committee considered that there existed in each case special circumstances which justified the omission of the name of the member from the publication of the finding and decision.

In the case of nine members, the committee found the complaint proved and decided to take no action; the committee considered that there existed in each case special circumstances which justified the omission of the name of the member from the publication of the finding and decision.

NOTES AND NOTICES

Personal

MESSRS SINGLETON FABIAN & Co, Chartered Accountants, of 30 Southampton Buildings, Chancery Lane, WC2, and 65 London Wall, EC2, announce that they have admitted Mr M. J. BOWMAN-VAUGHAN, A.C.A., as a partner as from September 1st, 1953.

MR JOHNSON B. HODGKISS, F.C.A., A.S.A.A., practising under the style of CAMPBELL & BOWDEN, Chartered Accountants, at Westminster Bank House, 3 York Street, Manchester, 2, announces that he has taken into partnership, as from September 1st, MR LESLIE MULELLY, A.C.A., and MR WALTER A. DANIELS, A.C.A. The practice will be continued under the same name and at the same address.

MESSRS GOWAR, ASHBY & BARNSDALE, Chartered Accountants, of Staple House, 51-2 Chancery Lane, London, WC2, announce that as from September 1st, 1953, they have taken into partnership MR D. C. DAVIES, A.C.A. The name of the firm will remain unchanged.

MESSRS HOWARD E. WIGZELL, F.C.A., J. B. MARKS, T.D., F.C.A., and L. H. ENNIS, F.C.A., who at present practice in partnership as KINGSFORD, GARLANT & J. B. MARKS, Chartered Accountants, of 23 Essex Street, Strand, London, WC2, announce that they have opened an additional office at Medway House, 60 High Street, Maidstone. Telephone: Maidstone 4232. The Maidstone practice will be carried on by the same partners under the style of KINGSFORD, GARLANT & Co.

MESSRS RICHARDS C. J. RUSSAM & Co, Chartered Accountants, of 2A Tyrrel Street, Bradford, announce that they have admitted Mr R. S. GLENDINNING, A.C.A., into the partnership and that the practice will continue at the same address under the style of RICHARDS, RUSSAM & Co.

MR M. FELTON, D.F.C., A.C.A., announces that as from September 14th, 1953, his practice will be carried on at 15 Half Moon Street, Piccadilly, London, W1. Telephone: GROsvenor 8794.

MESSRS CLAYTON & BREWILL, Incorporated Accountants, of 15 Wellington Circus, Nottingham, announce that, as from September 1st, 1953, they have taken into partnership Mr K. F. POOL, A.C.A. The style of the firm will remain unchanged.

Professional Notes

Mr K. C. Riggs, A.C.A., has been appointed secretary of Sir J. L. Hulett & Sons Ltd, Durban, as from August 1st, 1953. Mr Riggs was formerly accountant of the company.

Mr J. M. A. Smith, A.C.A., has been appointed an assistant managing director of the Ford Motor Co Ltd. Mr Smith, who will be responsible for sales, finance, administration, and public relations, was appointed secretary of the company in 1939; he became director of finance and administration in 1951 and joined the board in May of this year.

Mr S. W. Kallend, A.C.A., is relinquishing his directorship of Briggs Motor Bodies Ltd and his appointments as Financial Executive and Secretary of the company, as from September 30th, 1953. Mr Kallend intends to return to private practice.

The Institute of Chartered Accountants in Australia

The Institute of Chartered Accountants in Australia has this summer celebrated the twenty-fifth anniversary of its formation, its Royal Charter having been granted by King George V in 1928.

Twenty-one years earlier some practising public accountants in Australia had formed the Australasian Corporation of Public Accountants, of which the main object was 'to support and protect the character, status and interests of the profession of public accounting in Australia'. When the Charter was granted, the Corporation became The Institute of Chartered Accountants in Australia, the only body of accountants outside the British Isles to be granted a Royal Charter - a distinction it still holds.

In the twenty-five years of its existence, membership has increased from 636 to over 3,500, and the Institute has secured and maintained a high standard of technical and ethical conduct in the profession. It has carried out research, issued recommendations, and played a large part in reform of tax laws and changes in the Companies Acts.

To the many congratulatory messages received by *The Accountant* adds its congratulations for the future.

The Liverpool Chartered Accountant Students' Association

The seventieth annual meeting of The Liverpool Chartered Accountant Students' Association was held on August 27th, with Mr J. H. Bradley, A.C.A., in the chair.

The report of the committee for the year ended June 30th, 1953, presented at the meeting, records a net increase of 42 members, bringing the total membership up to 606.

A series of eight lectures was held during 1952-53, and other meetings included the annual competition for the 'President's Prize' which was contested by ten students who were divided into pairs, each person having to speak for or against a given motion. The judges placed Mr G. M. H. Walker, B.A., first, and Mr M. J. Mallett, second.

The Association's annual ball was held at *The Exchange Hotel* in February, while at sport, matches were played against other students' societies at rugby, soccer, hockey and golf.

The two residential courses held during the year at Burton Manor, in conjunction with the Manchester Chartered Accountants' Students' Society, were most successful.

Membership of the Association's Chester and North Wales Branch again increased in 1952-53, bringing the total to 26 honorary and 49 ordinary members.

The officers of the Association for the ensuing year have been elected as follows:

President: Mr S. Morris, F.C.A.

Hon. Treasurer: Mr I. C. McAllester.

Hon. Secretary: Mr P. J. Rush, 5 Fenwick Street, Liverpool 2.

South Eastern Society of Chartered Accountants

STUDENTS' RESIDENTIAL COURSE

The South Eastern Society of Chartered Accountants is to hold its fourth students' residential tuition course at the Royal Pavilion, Brighton, from Monday to Friday, October 5th-9th. The three previous courses were most successful and it is hoped that the response to the forthcoming one will be equally encouraging.

The fee of £3 5s 0d includes light refreshments and also the course dinner; arrangements for hotel accommodation will be made for any who require it.

Chartered accountant students within the area of the South Eastern Society are invited, and those interested should apply for registration forms to the Assistant Hon. Secretary, Mr D. H. Tonkinson, A.C.A., 6 Bartholomews, Brighton, 1.

The Birmingham Chartered Accountant Students' Society

WEEK-END RESIDENTIAL COURSE

For the fourth consecutive year the joint lecture committee of the Birmingham and District Society of Chartered Accountants and the Birmingham Chartered Accountant Students' Society has arranged for a week-end residential course to be held at Ashorne Hill, near Leamington Spa.

The course, which commences at midday on Friday, October 9th, and disperses on Monday afternoon, October 12th, will be in the style of previous ones - each lecture being followed by group discussion. The speakers this year are Messrs Stanley Dixon, M.A., A.C.A.; H. C. Edey, B.COM., A.C.A.; A. P. Hughes, F.C.A.; H. A. Mould, Lloyds Bank Ltd; B. G. Rose, A.C.A., and A. A. Shenfield, Barrister-at-Law.

The course is open to all chartered accountant students in the Midland area, the charge for the full course for students who are enrolled under the joint lecture committee's tuition scheme and who are not members of The Birmingham Chartered Accountant Students' Society being £6 15s.

Applications from students wishing to attend should be sent to Mr E. Hemsoll at the Chartered Accountants' Library, 71 Edmund Street, Birmingham 3.

SATURDAY MORNING LECTURE SERIES

Three courses of Saturday morning lectures, each with a most comprehensive syllabus, are to take place from the end of this month to the end of May for Final and Intermediate students. Two of the courses are for those preparing for the Intermediate examination - one being designed for newly articled clerks and the other for those in their second or third year of study. The Final course will be held at the University, Edmund Street, and the Intermediate courses at the Chartered Accountants' Library.

Insurance Statistics

Insurance statistics of British companies during 1952 are given in full in a new publication entitled *Statements of Life Assurance and Bond Investment Business deposited with the Board of Trade during the year ended December 31st, 1952* which is now on sale at H.M. Stationery Office.¹

The statistics include details of life insurance and bond investment revenue accounts, profit and loss

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accounts, balance sheets and certificates, and returns under the Fourth and Fifth Schedules to the Assurance Companies Act, 1909.

The statements in the case of overseas companies, however, have been abridged so as to limit the size of the publication, which is in two volumes and contains 841 pages.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 15TH, 1928

Cricket Match

On Thursday, the 23rd August, the annual cricket match was played between Messrs. Agar, Bates, Neal & Co., and Messrs. Sharp, Parsons & Co., at the Warwickshire County Ground, Edgbaston, Birmingham. A very interesting game found Messrs. Sharp, Parsons & Co. winners as shown by the under-mentioned scores.

At the invitation of Messrs. Agar, Bates, Neal & Co., about 100 sat down to lunch and tea. Mr. James C. Parsons, captain of Messrs. Sharp, Parsons & Co.'s team, expressed thanks to Messrs. Agar, Bates, Neal & Co., for their generous hospitality, to which Mr. Philip Green suitably replied.

Agar, Bates, Neal & Co.

P. Green, c and b Bradshaw	17
C. G. M. Morris, lbw b Nelson	23
D. W. Day, c Danity, b Bradshaw	5
J. T. Lewis, b Nelson	9
L. H. Cleaver, st Johnson, b Tallon	32
H. L. Miles, b Nelson	6
P. J. Austin, c Harris, b Parsons	1
G. Matthews, c sub., b Bradshaw	0
J. A. Gopsill, c Snow, b Tallon	16
G. Thompson, b Snow	10
H. Mossan, not out	12
Extras	12
Total	108

Sharp, Parsons & Co.

P. Harris, c and b Green	16
F. H. Bradshaw, c Lewis, b Miles	34
W. C. Nelson, b Cleaver	30
C. L. Tallon, c Lewis, b Green	8
J. C. Parsons, st Day, b Austin	47
E. G. Wilcox, c Day, b Miles	1
S. A. Snow, c Lewis, b Austin	0
E. Johnson, c Day, b Austin	3
C. Danity, not out	1
N. Haynes and E. R. Bosley did not bat.	
Extras	7
Total	142

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 14TH, 1878

Extract from a leading article

A Trade Journal on the Administration of Insolvent Estates

Few, we imagine, will question the value of comic papers, any more than they would decry the pleasure to be obtained from occasional association with humorous companions. It will doubtless be admitted, also, that the fun of both papers and men is legitimate so long as it is kept within reasonable bounds, and directed to proper ends. In each case, however, the natural and spontaneous flow of comicality grows feeble, and the jokes and merry quips become stale, flat, and undiverting, in the precise ratio that they are the obviously forced product of minds whose duty it is to be amusing. We do not specially complain of this because, for one thing, we know that the humorous fecundity even of funny editors is not inexhaustible; and for another, because we know where to look for a perennial flow of humour of a character as natural as the morning dew. . . .

Overseas Economic Survey

A survey of economic and commercial conditions in Belgium and Luxembourg has been published by Her Majesty's Stationery Office, price 3s 6d; (post free 3s 9d). This is the latest volume in the series of Overseas Economic Surveys issued by the Commercial Relations and Exports Department of the Board of Trade.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (August.) 'How to use the client's personnel to save audit time before the actual audit begins', by James W. Porter, C.P.A. ACCOUNTING RESEARCH. (July.)

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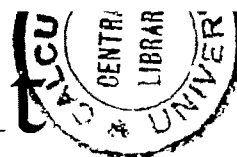
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The Accountant

ESTABLISHED 1874

SEPTEMBER 19TH, 1953

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CONTENTS

Leading Articles	<i>Page</i>
Australian Budget	325
The Finance Act, 1953 - VII	327
Special Articles	
Management Accounting: The Capital and Cash Fore- cast by Ian Liddington, M.C., A.C.A.	329
Effect of Electronics on Ac- counting by K. Blundell, A.A.C.C.A., A.C.I.S.	330
North American Comment- ary - XLVI by Kenneth F. Byrd, M.A., B.Sc.(Econ.), A.C.A., C.A. (S.A.), Professor of Account- ing, McGill University, Mon- treal	332
Taxed with Unkindness by P. E. Smart, LL.B.	334
Weekly Notes	335
Finance and Commerce	337
Correspondence	339
Reviews	342
Excess Profits Levy	
The Excess Profits Levy (Metals, Oil and Mineral Producing Concerns) Regu- lations, 1953	344
Notes and Notices	
Personal - Professional Note - Obituary - The Late Mr H. Crewdson Howard, F.C.A. - The Institute of Chartered Accountants in Ireland - Census of Production for 1954 - South London Chartered Accountants' Discussion Group - The Chartered Accountant Students' So- ciety of London - Manches- ter and Liverpool Students' Residential Courses - Char- tered Accountants' Hockey Club - Twenty-five Years Ago - Seventy-five Years Ago	345
The Institute of Chartered Accountants in England and Wales	
Associates elected to Fellow- ship and applicants ad- mitted to membership	348

AUSTRALIAN BUDGET

THE tax reductions and concessions granted in MR BUTLER's Budget of last April pale into insignificance when compared with the sweeping reductions in the Australian Commonwealth Budget which SIR ARTHUR FADDEN, the Federal Treasurer, introduced this month. They total no less than £118,400,000 (Australian) in a full year, and for the year 1953-54 they amount to £81,560,000, or nearly a tenth of the total Budget turnover. Nevertheless, the Federal Government is budgeting for a slight surplus for 1953-54. Income and expenditure are each estimated in the region of £982 million, the expenditure being some £7 million up on last year.

SIR ARTHUR said the primary aim of the Budget was to give the utmost encouragement to individual effort, to business enterprise and to individual and collective saving. After passing through a difficult and unbalanced phase Australia's economy had now reached a balance. The Government judged that it required a stimulus to go forward on this more stable basis to higher levels of all-round productivity and was seeking to give that stimulus so far as Government action could do it.

Conditions in Australia today were highly favourable to economic expansion. Employment was high and there was no significant labour shortage. Nor were there any shortages now of coal or steel or building materials. Export earnings were relatively high and overseas reserves had been built up again so that the nation could obtain all the essential things required from abroad. SIR ARTHUR added that there were still problems to be solved. One was the problem of costs. Another was that of savings which were too low to sustain an adequate rate of national expansion. A third was the ever-present problem of productivity.

The Government's policy at this juncture was a bold one of reducing taxes, particularly those which were levied directly upon the individual and upon business, in the belief that this was the best form of assistance which it could give in the attack on costs.

Of the taxation proposals, the Treasurer said that they would benefit the greatest number of people; in fact they would benefit practically everybody. Of course when all taxes are reduced everybody must benefit, but they do not all benefit to the same extent. Nevertheless, where there is much need to reduce costs and increase productivity, everyone must benefit in the long run from tax reductions which encourage the achievement of those ends.

The most important tax reduction is in the rates of individual income-tax and social services contribution. The reductions average 12½ per cent. They extend throughout all income ranges but the percentage reductions will be greatest in the lower and middle income ranges. The maximum rate of tax, at present fifteen

shillings in the £ on the excess of income over £10,000, will be reduced to fourteen shillings and will apply only to income in excess of £16,000.

The concessional allowance for a dependent wife is to be increased from £104 to £130. Australia gives an allowance for medical expenses, including dental and optical expenses. The allowance is to be increased from £100 to £150 for each person, the maximum allowance for dental expenses within this total being raised from £20 to £30. The taxpayer can deduct not only the expenditure on himself, but also that on his spouse and on each child under 21 resident in Australia, and the above maxima apply for each person. The maximum amount allowed for education expenses is to be raised from £50 to £75 and the scope of the concession liberalized.

The exemption for aged persons will be increased from £254 for a single person and from £507 to £750 for a married couple.

The special hardships of authors, artists, composers and inventors have been considered. When they receive a lump sum which represents the fruit of more than one year's work, the operation of graduated rates of income-tax may result in their paying more tax than is just. It is proposed to levy tax on such people at a rate appropriate to the normal income plus one-third of the abnormal receipt.

In place of the familiar earned income relief system, the tax structure in Australia provides for modest further rates of tax on investment income in a certain range. These further rates on individuals are to be abolished.

The reductions in taxation of companies are even more striking. For public companies the rate is to be six shillings in the £ on the first £5,000 of taxable income and seven shillings in the £ on the balance. The temporary additional levy of two shillings in the £ imposed in the two preceding years is not to be renewed. In consequence the proposed rates represent a reduction in tax of one shilling in the £ on the first £5,000 and two shillings in the £ on the balance. One can imagine the stir which such a reduction would bring in the United Kingdom.

Private companies already enjoy preferential rates and these have been reduced by one shilling. The definition of private company is somewhat different from that in Great Britain. Broadly

speaking the company must have not more than twenty members and be controlled by not more than seven persons, and it must not be a subsidiary of a public company.

It has also been decided to raise the annual exemption for Pay-roll Tax from £1,040 to £4,160 on wages and salaries payable after September 1953. This means that more than 50,000 of the 90,000 employers who now pay the Pay-roll Tax will no longer be liable.

The fierce arguments which shook the British House of Commons this year on the question of whether cricket should be singled out for exemption from entertainment tax, and the vigorously pressed claims for differential treatment put forward by the representatives of the various entertainment interests, are all made to look a little unreal by the decision of the Australian Government to abolish entertainment tax altogether, as from October. True this concession will cost only £7 million in a full year but it is nevertheless a bold and imaginative step; although what it has to do with the encouragement of work and thrift is not immediately clear.

While we have purchase tax, Australia has a sales tax, with rates of 50 per cent, 33½ per cent and 20 per cent. These rates are now abolished and replaced by rates varying from 16⅔ per cent downwards, which came into force on the day following the Budget statement. At the same time a wide range of goods subject to the tax were exempted altogether.

Estate duty is a well recognized source of discouragement of much potential saving. The exemption limit is to be raised from £2,000 to £5,000 where the estate passes to the widow, children or grandchildren. In other cases it is increased from £1,000 to £2,500.

Persons with small incomes will not benefit greatly from the tax reductions, while they will still have to cope with a rise in the cost of living. However, most pensions are to be increased by some 2s 6d a week.

On the other hand there has been something of a boom on the stock exchange. It is to be hoped that the aim of increasing production and therefore wealth will be achieved, and that Australian harvests will be good and the price of wool will remain stable. In those circumstances there should be prosperity for all in that young, energetic and increasingly important country.

THE FINANCE ACT, 1953—VII

Section 21 (2): Extent of Relief in Respect of Unremittable Overseas Income

SECTION 21 (2) says that account shall not be taken of the overseas income to the extent to which he (the taxpayer) shows to the satisfaction of the Inland Revenue that the two conditions which we referred to last week have been complied with in respect of it. These conditions are that:

- (i) the overseas income is unremittable within the definition in Section 22 (1); and
- (ii) the taxpayer would be prevented from transferring it to the United Kingdom notwithstanding reasonable efforts on his part.

Tax is to be assessed and charged on all persons concerned and for all periods accordingly. The expression 'all periods' is somewhat misleading, for Section 21 (8), which will be dealt with later, narrows its scope considerably.

Paper Profit

Where the overseas income consists of a trade assessable under Case I of Schedule D, as when the trade is partly carried on in the United Kingdom, such elements as increases in trade debtors and trading stocks will commonly form part of the profit assessable on the arising basis. By their very nature, and independently of Section 21 (1) (a) (b), such elements of profit will not be available for remittance home. Strictly speaking, therefore, they cannot be within Section 21 (1) (a), so that in theory the taxpayer might be compelled to pay tax on them when he escaped tax on realized profit. In practice, no doubt this will not happen, but it is unfortunate that such an elaborate section should have ignored this important point.

Section 21 (2): Withdrawal of Relief

The relief is purely provisional. This is the result of the following remarkable piece of drafting:

'on the Commissioners of Inland Revenue ceasing, as respects any part of the income, to be satisfied that the said conditions are satisfied, such additional assessments, reductions of assessments and repayments of tax shall be made as may be necessary to take account of it, and of any tax payable in respect of it under the law of the territory in which it arises, according to their value at the

in the opinion of those Commissioners, the said conditions cease to be satisfied with respect to it, and may be so made at any time not later than six years after that date'.

It is a condition precedent to the withdrawal of relief that the Inland Revenue shall 'cease to be satisfied that the said conditions are satisfied'. This change of opinion will require to be evidenced by a formal minute of the meeting at which it takes place. If it extends to only part of the income, or to several different blocks of income, the minute will have to specify the appropriate amounts.

The adjustment is to take account of:

- (a) the income specified in the minute;
- (b) the overseas tax payable in respect of that income ('payable' must be intended to include 'paid'); and
- (c) the value of (a) and (b) in terms of sterling at the time the conditions ceased to be satisfied.

As the time limit for additional assessments is six years from that date, it follows that theoretically the Inland Revenue must pass their resolution within six years. In practice it appears unlikely that the resolution would specify a date so long ago as to defeat the power to recover the appropriate tax. Where actual remittances had been made, and had not been picked up in time, there would be no point in passing a resolution.

Section 21 (2) (5): Conversion of Foreign Income to Sterling

Section 21 (5) provides as follows:

'21 - (5). Subject to subsection (2) of this section, the amount of any unremittable overseas income shall be determined by reference to the generally recognized market value in the United Kingdom (if any) or, in the absence of any such value according to the official rate of exchange of the territory where the income arises.'

The words 'Subject to subsection (2)' exclude Section 21 (5) whenever the application of Section 21 (2) is claimed. It follows that Section 21 (5) applies in two cases, namely, (i) where the income is unremittable but does not satisfy condition (b); and (ii) where the unremittable income does satisfy condition (b) but the taxpayer does not opt for Section 21 (2) treatment.

In Section 21 (2) the expression 'unremittable

income' seems to postulate a sum expressed in foreign currency as the subsection provides for its valuation, along with the valuation of the foreign tax on it, which tax will necessarily be in foreign currency. The same expression in Section 21 (5) postulates a sum expressed in sterling, since its amount is to be determined in sterling. An assessment may include both unremittable income and income which is not unremittable; Section 21 (5) is confined to the former.

As long as the unremittable income has a 'generally recognized market value', no matter how low, the taxpayer who does not enjoy the benefit of Section 21 (2) pays British tax on that value. If he cannot show such a market value, he must pay tax on a sterling equivalent computed at the full official rate of exchange in the foreign territory. The construction of the phrase 'generally recognized market value' is likely to cause difficulties. In particular it seems open to argument that there must always be such a value even if it is nil.

Where unremittable income, expressed in foreign currency, has been disregarded in accordance with Section 21 (2) and then subsequently falls to be taken into account because the conditions cease to be satisfied, it has to be valued as on the date when that happens. Thus the taxpayer claiming Section 21 relief may find his liability eventually increased because the sterling equivalent of the income may have increased in the meantime. The liability is none the less a liability in respect of the year for which the income ought originally to have been assessed. Of course in the case of a trade assessed under Case I, changes in the sterling values of current assets, by reason of exchange fluctuations, are in any case normally reflected in the British tax assessments.

Section 21 (3): Application of Section 21 to Profits Tax and Excess Profits Levy

The taxpayer can apparently opt to apply Section 21 (2) to any particular block of income which falls within it, to the exclusion of other items of income. In relation to that block of income, however, he must apply it to profits tax and excess profits levy as well. The option is exercised by notice in writing to the inspector, which must be given before the assessments to all those taxes, chargeable by reference to the

income, have become final (Section 21 (3)). An extension is allowed to October 31st, 1953, in the case of assessments which became final before then (Section 21 (8)).

Section 21 (3) gives authority for the reduction and repayment of tax consequent on the giving of a notice. It also authorizes additional assessments, although these are not likely to be numerous. The necessary authority for converse adjustments when the income ceases to satisfy the conditions is contained in Section 21 (2).

Section 21 (4): Deceased Taxpayers

Where a person obtains Section 21 (2) relief and dies before the conditions cease to be satisfied or before the necessary additional assessments can be raised, Section 21 (4) gives power to assess his personal representatives.

Section 21 (6): Appeals

Section 21 (6) provides as follows:

'21-(6). Any appeal against an assessment which involves a question as to the operation of this section shall be made to the Special Commissioners, and not to the General Commissioners.'

Section 21 (7): Groups of Companies

So far, the section has referred to persons chargeable to tax. In the case of groups of companies, it is sometimes only the principal company which is chargeable to profits tax or excess profits levy, liabilities of the subsidiaries being included. Section 21 (7) makes it clear that the section is to apply to each company.

Section 21 (8): Section 21 Retrospective to 1952-53

Section 21 (8) provides that for income-tax purposes the section is to apply to 'overseas income' by reference to which a person is chargeable to tax for any year of assessment not earlier than 1952-53, but the section is not to affect earlier tax years. As regards profits tax and excess profits levy, the section is to apply to 'profits' arising in any chargeable accounting period 'in or before which any such income arises'. Thus, for income-tax, Section 21 (8) stipulates for 'overseas income'; for profits tax and excess profits levy it refers merely to 'profits'. The distinction is without a difference, however, and was probably caused by the insertion, inadvertently, of the unnecessary word 'overseas'.

(To be continued.)

MANAGEMENT ACCOUNTING

THE CAPITAL AND CASH FORECAST

by IAN LIDDINGTON, M.C., A.C.A.

IN an earlier issue of *The Accountant* Mr N. G. Lancaster stressed the importance of the cash forecast as an aid to management.¹ But what form should a cash forecast take? If a *monthly* report is to be made to the board of directors, how should it be set out? No doubt a great many different answers to these questions have already been found, but the pool of common knowledge on the subject is not large, since little information has been published. The accom-

panying form is put forward to demonstrate one possible answer.

As suggested in the title above, it is thought by the writer that a cash forecast should be combined with a forecast of capital expenditure. Full details of capital expenditure will, of course, be shown elsewhere, so that a summary only is required for the purpose here in mind. The raising of fresh capital and the consideration of future capital expenditure are matters which are often closely associated and it is convenient, therefore, to set out on one form both the future capital expenditure and forecasts of the future cash position.

¹ 'Management accounting: a director's point of view', by Norman G. Lancaster, M.B.E., A.C.A., *The Accountant*, April 18th, 1953.

CAPITAL & CASH FORECAST - JUNE 30TH, 1953

	Authorized	Awaiting authorization	Expenditure since 1/1/53	Timetable for future expenditure			
				1953	1954	1955	Later
I. CAPITAL	£	£	£	£	£	£	£
(1) Unspent balances at January 1st, 1953, and additions since:							
Alpha Works (normal capital expenditure) ..	9,000(A)	1,000(B)	5,000	5,000			
Beta Works (normal capital expenditure) ..	45,000(A)	5,000(B)	30,000	20,000			
Gamma Scheme (major project) ..	250,000	25,000	55,000	55,000	115,000		
(2) Agreed to in principle and awaiting authorization:							
Normal capital expenditure (Alpha & Beta) ..		150,000		10,000(C)	70,000	70,000	
Alpha extension (major project) ..		175,000		25,000	150,000		
(3) For later consideration:							
Beta extension (major project) ..							100,000
	304,000	306,000	90,000	115,000			
				90,000			
				205,000	335,000	70,000	
II. CASH FORECAST	Current Forecast of Monthly bank balance/overdraft						
(1) Budgeted net margin (before depreciation) and capital incomes, less taxation, dividends and requirements for debtors and stocks ..	ooo's omitted						
(2) Budgeted cash requirements/surplus ..	1953						
(3) Budgeted bank balance/overdraft at end of year ..	July .. 80						
(4) Current forecast of under/over statement of budgeted net margin etc. - 1953 ..	August .. 70						
(5) Current forecast of bank balance/overdraft at end of year ..	September .. 60						
	October .. 80						
	November .. 100						
	December .. 120*						
	1954						
	January .. 20						
	February .. 50						
	March .. 100						
	April .. 150						
	May .. 175						
	June .. 200						
	July .. 200						
	August .. 175						
	September .. 150						
	October .. 100						
	November .. 100						
	December .. 90†						
† Bank balance	£						
January 1st, 1953 ..	115,000			200,000	125,000	175,000	
Budgeted cash requirements 1953 ..	5,000			5,000	210,000	105,000	
	£110,000			†110,000	100,000	5,000	
				10,000			
				*120,000	†90,000	15,000	

Note. - The 'ration' for the year 1953 for normal capital expenditure was £70,000. Of this sum £54,000 (AA) has already been authorized by the Board and further authorization is now required for £6,000 (BB). The remaining balance of £10,000 (C) represents the unallocated portion, of the 1953 'ration'.

Future capital expenditure may comprise, (1) expenditure on major projects, and (2) other expenditure, here termed 'normal capital expenditure'. The latter will usually be found to continue at a fairly constant rate over the years. Anticipated capital expenditure can be further classified into (1) expenditure already authorized by the board, (2) expenditure agreed to in principle but not yet authorized (including future normal capital expenditure), and (3) projects earmarked for later consideration. These distinctions are considered to be important ones and should be taken into account.

A monthly capital and cash forecast must

clearly be flexible. Forecasts of net cash income will initially be derived from budgets, and where actual results diverge materially from those budgeted for, provision must be made to ensure that the cash forecast reflects the new situation.

The form of monthly capital and cash forecast illustrated has been found in practice to be most useful. To enable the working of the form to be more easily understood hypothetical figures have been inserted; in practice it is advantageous if the figures and narrative printed in italics, appear in red. It is hoped that this may be of interest to accountants who may be faced with this particular problem in management accounting.

EFFECT OF ELECTRONICS ON ACCOUNTING

by K. BLUNDELL, A.A.C.C.A., A.C.I.S.

IN a fantasy by H. G. Wells a species of being circumvented limitation of brain power by developing – without the restriction of the bony structure of the skull – huge jelly-like heads accommodating phenomenal memories. The greater the memory, the more tremendous grew the superstructure, with the consequent immobility of the most learned.

Various mechanical means have been invented by mankind to provide auxiliary brain power, such as, in accounting, adding, calculating, book-keeping and recording machines.

From the study of the mechanics of the actual brain processes themselves has come the understanding of 'feed-back' and automatic control which have made possible the efficiency of electronic devices of fantastic speed.

The electronic computer is the facet of this development likely to affect accounting most closely. Its most publicized quality is the amazing speed in comparison with electrical calculators which have already far exceeded human calculating abilities.

Gearing Speeds

The speed of results is as yet held in bond by the two problems of feeding information into the computer and reproducing the results at speeds commensurate with the calculations.

The first problem has been minimized by the reproduction of the programme of instructions for the particular work to be done on a punched-card system. A library of blocks of cards relating to particular sets of operations can be built up to cover all standard operations and so prevent machine time wastage while programmes are prepared.

Much preparatory time is occupied in 'programming' – which involves simplifying the work into the basic 'language' of the machine, which, of course, works in a series of mathematical moves.

The reproduction of results difficulty lies in the fact that no printing mechanism can keep pace with the computer's speed. It is possible that magnetic tape or electrically operated multi-printing machines may provide the solution. But the electronic camera has achieved such equally fantastic speeds in its own sphere that possibly some link-up will solve the problem.

This is of particular interest in accounting as the ratio of results to calculations is likely to be higher than in most computing work.

Interchangeable Memories

Storage of intermediate results within the machine itself during calculations is achieved by a technical 'memory' which may be mercury tubes, cathode ray tubes or a magnetic drum.

Actual calculations take place in the form of chains of impulses working at electronic speed. At appropriate points in the operations results must be held in sub-total form until some other part of the calculation is complete, when the machine refers back to its 'memory' and extracts the appropriate sub-total results to bring into the calculation again. The 'memory', of course, also retains the instructions fed into the machine.

The technical complexities, which are immediately alarming to the layman viewing an experimental computer in a 'mock-up' state, would not normally be apparent, or even of interest, to the operator, so long as he was

acquainted with the machine's capabilities.

In practice, though, the technicalities will tend to fall into well-defined units and circuits. Maintenance is more likely to take the form of replacement of particular circuits or whole units, rather than of running repairs to the computer.

It is possible that an eventual development will see appropriate units for varying operations, particularly in the case of the 'memory' – similar to the removable control boxes or bars supplied with some modern electrical equipment.

Comment is sometimes made on the high cost of the electronic computers that have already been built, but this is no guide to the production cost of standardized units and circuits which are envisaged, and development costs should be comparatively small to the immense amount of research work put into prototypes.

Circumstances of Introduction

The electronic computer seems to have reached a stage of development ripe for use in the commercial world, if the demand is there.

Present rapid changes in industrial circumstances would seem to favour its early introduction. Speediest preparation of trading accounts is an urgent necessity. The pressure to step up production in order to reduce costs means that a greater volume of commercial work will arise.

While development of electronic computers has taken three broad directions – those of amazing abilities developed in connection with defence, the computer used for long and intricate technical calculations such as the automatic computing engine at the National Physical Laboratory, and the commercial adaptation – in accounting it is apt to be assumed that the same type of work will be done only very much more quickly.

In fact, just as the early horseless carriage presaged great changes in transport, the electronic computer is likely to initiate changes just as great in accounting techniques. For instance, the idea of continuous ledger posting (involving repeated sorting and replacement of cards) may be abolished when the work can be produced with such speed that the whole month's entries can be dealt with in a short time producing completed ledger card and statement copy together.

Centralization

The cost of an installation and its capacity for

The same influences of speed and cost may make for the telescoping of departments having considerable quantities of calculations to undertake. Particularly would this apply to the, at present, fairly well defined functions of accounts, costs, wages and statistics, with which perhaps should be linked budgetary control.

The speed factor may be stressed by reference to Mr F. C. de Paula's quotation of Mr Daniel M. Sheehan, vice-president of Monsanto Chemical Company of St Louis, U.S.A., at the twentieth annual meeting of the Controllers' Institute in New York on September 30th, 1951:

'Reports which formerly consumed fifty man-days in manual preparation are now produced through the use of an electronic card-programmed calculator in eight hours. Future electronic equipment may produce them in one hour.'¹

As the maximum operating time is made available by the use of standard programmes, so that waiting time is virtually eliminated, it becomes apparent that work may be produced for which resources have never previously been available. Not only would trading accounts, for example, be available within a matter of hours, but they may be produced more frequently to give closer control – e.g. weekly instead of monthly.

Accountant's New Work

New work will undoubtedly come within accounting scope and, once programmed, add to the organization's regular information. Such work might include market research, sales and production analyses and comparisons, stores accounts in volume, raw materials requisition calculations.

The possibility of interchangeable units to cope with different types of work may bring moderate technical calculations within the scope of the commercial equipment. Such work would lighten the burden of the design and planning departments (although it will probably never eliminate the engineer's affection for his slide rule) but would bring the accountant into much closer touch with technicalities than standard costing experience may have done already.

Apparently a great field of exploration lies here as to how far mathematical computations as, for example, of tensions, strains and stresses, can eliminate costly practical experimental work

premature from the point of view of the impact of the electronic computer on accounting.

Engineer's Interest

There is, however, another angle. Years ago there was a very clear definition between office and works. When the necessity to calculate industrial buildings allowances under the then Income Tax Act, 1945, first brought accountants to consider the physical works and office division, the definition had become blurred. Various works offices had sprung up: material control, maintenance engineer's, production engineer's, tool control – and each had records to keep. The engineer began to have a direct interest in office control methods.

The advent of the *specially adapted* electronic computer is likely to extend this link-up between accounting and the technical side.

The increasing tendency on the production side towards flow work, continuous processes, and the vision of the automatic factory, has already introduced many sensing devices – some of them electronic – for automatic control.

The link-up between such devices at remote points and a special purpose electronic computer giving instantaneous centralized information for control is an obvious step. Apart from the consideration that the computer would be able to work unattended – and round the clock if neces-

sary – it is a step likely to be expedited by the introduction into industry itself of new processes and techniques making for greater speed of production.

The degree of success of an installation will depend on

- (1) The imagination to grasp the type of work which may be brought within the computer's scope.
- (2) The foresight brought to bear on the problems which it is suggested the machine should solve, not only on the work for the machine but on its relation to the rest of the organization.
- (3) The degree of co-operation between departments as work new to the installation is brought within the scope of the 'programmer'.
- (4) The efficiency of the 'programmer' in preparing the machine's instructions.
- (5) Completely detailed thorough preparation.

Consideration of this new source of auxiliary brain power would not be complete without stressing that it can work only within the scope of instruction given from outside.

While a computer has limited choice within the sphere of those instructions, it cannot originate. While it can memorize – it has no initiative in the matter it shall memorize.

It cannot take the *thought* out of accountancy, and should make for more flexibility – not the immobility of Wells' beings.

NORTH AMERICAN COMMENTARY—XLVI

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
Professor of Accounting, McGill University, Montreal.

Journal of Accountancy,
New York, July

New Depreciation Policy for Taxation

MR T. COLEMAN ANDREWS, C.P.A., a past president of the American Institute of Accountants, and the newly appointed Commissioner of Internal Revenue, has lost no time in announcing a most important change in taxation policy. In future, depreciation deductions will not be disturbed unless there is 'clear and convincing basis for a change'. Even where rates are questionable 'reasonable tolerances' are to be allowed, adjustments being made only where the amounts are 'substantial' or 'material'. The editorial stresses that this is no gift to taxpayers for it is only a question of the period over which deductions are spread and

the total allowance will never exceed full cost less salvage value. It hails the announcement as a triumph of common sense, saving tremendous amounts of money, time and man-power.

Bank Audit Control

An increasing number of defalcations is said to be causing uneasiness among banks throughout the United States. There has been a tendency to assume, says the editorial, that banks can dispense with other audit controls because they are subject to examinations by federal or state authorities and periodic 'directors' examinations'. Yet the federal and state authorities specifically disclaim responsibility for comprehensive audits. In Pennsylvania the state bankers' association and the society of certified public accountants have

together prepared and published a minimum audit programme. The editorial says this suggests the appropriateness of a national campaign, by bankers and certified public accountants in co-operation, for better audit control.

New Developments in Auditing

Mr Alvin R. Jennings, C.P.A., chairman of the committee of the American Institute of Accountants on co-operation with bankers, cites today's defences against defalcation as, (1) internal control, (2) fidelity bond coverage, and (3) the external audit. He tells of the signed agreement in 1945 by a number of representative surety companies that they will not assert claims against accountants in any cases not involving affirmatively dishonest or criminal acts or gross negligence on the part of an accountant. He approves the successful resistance thus far against all efforts to narrow the field of judgment for the auditor by adopting specific rules of accounting. Mr Jennings says that the American Institute's Committee on Auditing Procedure is hoping for the co-operation of every state society in a contemplated campaign for dealing with the problem of the accountant who does not conform with such standards as have been formulated.

The problem of congestion at the end of the calendar year is still not solved. The testing of inventories and confirmation of debtors at pre-balance sheet dates has long been accepted practice. Mr Jennings considers that, in suitable cases, conditions may well justify virtually all the independent examination being done at, say, October 31st, where the financial year ends at December 31st.

The New York Certified Public Accountant,
July

Interim Audits

Even today, according to Mr Sheldon S. Freedman, C.P.A., many practitioners still insist on posting their clients' general ledger themselves. Similarly, Mr Ernest D. Loewenwarter, C.P.A., condemns the 'routine of needless examination of detail' which he says is so common. Apparently monthly audits are frequent, comprising adding the books, reconciling the bank account, checking the general ledger and perhaps submitting a trial balance. This, he says, is a discredit to the accountant and his profession. He tells how, in the mid-west, high salaries and shortage of staff are resulting in interim instead of monthly audits, perhaps four interim audits per annum.

Accounting Review,
Menasha, Wisconsin, July

Sacred Cows in Accounting

Professor Herbert F. Taggart, of the School of Business, University of Michigan, quotes Professor W. A. Paton's arresting statement, 'Accounting is plagued with fetishes and sacred cows', in an examination of accounting tradition. He gives first place to the accountant's conservatism - cost or market whichever is lower, charging capital expenditures to expense, omitting fixed overhead from inventory valuations.

Conservatism is not of itself a virtue, he says, and it is no excuse for failure to furnish owners and managers with essential economic data. Again, independence is another shibboleth, says Professor Taggart, and if it keeps the accountant aloof from his client's financial and managerial problems it may deny the client one of the most important benefits of the accountant's employment.

The Canadian Chartered Accountant,
Toronto, July

Controllershship and Accounting

In an excellent article analysing these two functions Mr J. L. Peirce, C.P.A., warns that the controller is not an accountant though he is responsible for the accounting as chief accounting officer. He must delegate the accounting work except for the most important policy decisions. For the controller's task is to control and he is concerned with accounting only as

'a tool with which to shape the mechanisms of control'.

Mr Peirce says that controllership is still in the growing stages and is not yet properly taught at the universities because its fundamentals are not properly understood. The controller is an executive officer at the policy-making level responsible directly to the chief executive officer.

Auditors' Reports

In the fifth of a series of studies by the Research Department of the Canadian Institute of Chartered Accountants it is stated that financial statements of Canadian companies show little or no uniformity in the form, wording or content of the auditor's report. Bulletin No. 6 of the Institute's Committee on Accounting and Auditing Research recommends a standard form for normal cases. In the United States, on the other hand, uniform wording, recommended by the American Institute's Committee on Auditing Procedure, is said to be used in almost 90 per cent of cases.

TAXED WITH UNKINDNESS

by P. E. SMART, LL.B.

IN *The Accountant* of May 30th, 1953, there was an appreciative notice of Lady Rhys-Williams's *Taxation and Incentive*. A week earlier, in 'North American commentary', Professor Byrd said that the chairman of the House Ways and Means Committee of the United States Congress had been quoted as seeking the help of the accountancy profession in eliminating the

'debris of conflicting, unsound and inequitable laws, decisions and rulings which make our tax system the monstrosity it is today.'

There are many who would say that his words need no amendment to apply equally to our own taxation; and many others might wish to question only the word 'inequitable' before bringing the quotation across the Atlantic. Certainly Lady Rhys-Williams, in her advocacy of a straight percentage tax on all income, of whatever size, coupled with a subsistence payment to every inhabitant whether or not he receives any income, is on the side of simplicity.

The desire for a simplified tax system is widespread, and its outstanding virtues – that everyone would know how much he is paying, and on what basis – are clear enough. So, too, is the present chaos. We seem to remember, many of us, watching our fathers – in those halcyon days when our own insufficient incomes were untaxed weekly sixpences – making income-tax returns on a reasonably straight-forward form, and being able on occasion to argue with the collector.

Yet, although most of us have come through the years to a rather surprised recognition that we do remarkably take after our fathers, there are plenty of intelligent men – lawyers and scientists, architects and authors – who cannot now follow the calculations of the Commissioners; and there is independent evidence in the succession of Finance Acts, as in the experience of most accountants, to confirm them in their belief that this is not merely a falling away from paternal standards. The forest has spread over a lot more ground, and the undergrowth has thickened, since our youth.

Pay As You Earn was, in its objective as in its naming, an inspiration; but it can be questioned whether its main effect has not been the transference of a large part of the collector's work to industry and commerce. Perhaps even 'transference' is an overstatement: certainly the Inland Revenue does not seem to have time on its hands.

Yet everyone who propounds a scheme of simplification must expect to meet criticism and opposition; and this rule applies to a very much wider range of subjects than merely taxation matters. There is a considerable vested interest in complexity, and to attempt to simplify, in any field of human activity, is to disturb and distress many more than those who see themselves being put out of work. We all enjoy our knowledge of our own work, and if that work is beyond the understanding of our neighbours our enjoyment is all the keener for it. There are those, too, who genuinely cannot understand the difficulties of the unlearned in their art; they, enjoying their complexities, view the reformers with a quizzically jaundiced eye, feeling perhaps somewhat as those would feel who, used to grappling with the crossword in *The Times*, were forced to solve instead the puzzle in *The Children's Newspaper*. In this matter few of us, picking up a simple stone, can be quite sure there is no glass around us: mastery of any mystery is an intoxicating habit, and accountants know well the reluctant (and heady) respect of those who say, 'I never was any good at figures. . . .'

Of course, even among the experts in any specialism, reformers are to be found: the Inspector of Taxes of reforming bent, for example, knows better than those who merely struggle with their returns, how complex are the complexities of his vocation. He knows, too, from a lifetime of experience, what time is spent in answering questions which seem to him almost witless, yet are the questioners' sincere attempts to understand what are otherwise apparently arbitrary assessments. All servants of unpopular institutions must know the peculiar admixture of bad temper which their public brings to largely frivolous argument. It would be hoping too much for our overburdened friends in the Inland Revenue that they will ever be universally popular; but it would be nice to think of their at least being relieved of as many unnecessary queries as possible.

The Royal Commission which for many months has been examining the possibilities of tax reform has the good wishes of most of us: we must hope that in marshalling their arguments the experts have been moved as little as possible by their intellectual enjoyment of the intricacies of the present maze.

WEEKLY NOTES

**Municipal Treasurers' President
Visits Canada**

Dr A. H. Marshall, B.Sc.(ECON.), PH.D., F.I.M.T.A., F.S.A.A., President of the Institute of Municipal Treasurers and Accountants, sailed for Canada September 11th to address a joint meeting of the Canadian Federation of Mayors and Municipalities and the United States Conference of Mayors.

Road Haulage Nationalization

Although the denationalization of road haulage is being actively proceeded with, some of the incidental problems of the original nationalization still remain to be solved. This is emphasized by the decision of the Transport Arbitration Tribunal in Scotland on the question of compensation payable to a road haulage company whose business had been taken over. In *Road Haulage Executive v. Frank Smillie & Co Ltd* (Road Haulage Cases No. 6 (S.)/1953), the applicants, the Road Haulage Executive, applied for approval by the Tribunal of an agreement made between the Executive and the company. The agreement was for the payment of compensation. At first the respondent made no objection to the application, but seven months later it made an incidental application attacking the basis on which the amount allowed for cessation of business had been calculated, arguing that the principle established in *Arthur J. Maggs Ltd v. Road Haulage Executive* (Road Haulage Cases No. 3 (E. & W.)/1950, page 15) had not been applied. There had been a dispute between the parties as to whether or not profits tax paid ought to be deducted from the company's profit in the process of arriving at the compensation for cessation, and they had eventually agreed a figure of £50,000 under this head as a compromise. Subsequently the respondent became aware of the decision in *Maggs's* case, to the effect that profits tax was not a proper deduction in arriving at profit for the purpose of computing the cessation payment.¹ The respondent was allowed by the Tribunal to contest the £50,000 previously agreed. Thereupon the Road Haulage Executive applied for leave to withdraw the initial application in order to reopen the whole case. As there was no disagreement between the parties as to the other items of compensation, the Tribunal refused this application.

Lower Trade Gap in August

Last month saw the smallest trade deficit on visible account since February. At £42 million it compared with £50 million for July and brought the cumulative

deficit for the first eight months of this year to £473 million against £609 million for the same period of 1952.

Both exports and imports were down heavily on July but it was the larger decline in imports which caused the improvement in the trade gap. Imports fell on the month from £293 million to £249 million while exports declined from £243 million to £207 million. Both exports and imports were lower on the month if measured on a working-day basis, but the absolute level of exports was satisfactorily higher in August than for the same month a year ago.

Trade with North America followed the general export trend. At £24.5 million it compared with £30.1 million in July, but it was nevertheless above the monthly average for the whole of 1952.

These figures give some grounds for hoping that the usual seasonal pressure on this country's external account may not be so large as to put a severe strain on the gold and dollar reserves and it is noticeable that official representatives abroad have been striking a note of confidence about this country's economic position at a time of the year when even 'cautious optimism' is considered to be a strong phrase. So far as the trade statistics are concerned there may be something of a time lag in the returns to be taken into account and it will not be apparent until at least September that the third quarter of the year has been less critical than usual.

Deficiency Payments for Agriculture

A deficiency payments scheme is to be introduced in 1954 for producers of cereals, namely, wheat, rye, oats and barley. These proposals will not affect 1953 crops according to the White Paper² published on Monday; when they come into operation they will be put into effect by the Ministry of Food in conjunction with the agricultural departments – without prejudice to any permanent organization which may be set up.

The new arrangements are brought into existence by the return of cereals to free marketing and they hark back to the pre-war years, their forerunner having been the Wheat Act of 1932. Cereals are the first group of agricultural products to have broad principles of Government assistance outlined for a post-war period of free marketing and there is little doubt that official thinking on cereals will affect the approach to other products including meat.

In the case of wheat and rye, deficiency payments will be made on the tonnage sold by individual producers, but for barley and oats they will be made on an acreage basis. For wheat, payment will be made on the amount of millable wheat sold and delivered. Standard prices for the 1954 harvest have been fixed

¹ See *The Accountant*, December 2nd, 1950.

² Cmd. 8947.

now. Particular difficulty has been encountered in making equitable arrangements for barley since its large industrial sales (to brewers, for instance) attract a premium price over the one obtained by barley for feeding. An effort is therefore being made for the 1954 harvest to exclude premium prices from the calculation of standard prices by imposing a ceiling on prices taken into the average calculations.

Under the new scheme a floor will be established to cereal prices based on the standard prices fixed at the customary annual review. In exchange for this the farmer concedes precise knowledge of how much he will get for his crop in the end.

Materials Prices Fall Further

During August there was a small but none the less perceptible increase in the level of world commodity prices. In this country, on the other hand, the raw materials prices for industrial goods went to yet lower levels. In fact, they declined to the lowest point for three years. The Board of Trade's index of raw materials prices, with a base of 1949 as 100, fell from 143.7 in July to 142.8 in August. Much of this movement can be ascribed to the decline in the price of copper. It was joined to a minor degree by tin, hides and skins, imported softwood and other timber. The only products to show an increase were shellac and certain benzol derivatives.

It is now clear that the recent fall in raw materials prices owes most to the downward trend in world prices - there is, of course, a time-lag before any reversal of that trend would make itself felt on the internal price structure of this country. But the fall has also been assisted by the freeing of the commodity markets, the case of copper last month, being an interesting case in point.

The decline in the prices of goods which industry buys has now become substantial. The fact that the official index is now back to where it was in 1950 underlines the extent of the fall. It is not likely that the trend can go much further without some deflationary pressure to assist it and there is little sign at the moment that such pressure will be forthcoming. After all, it was purposely not written into this year's fiscal strategy when the Budget was presented. But all this means, so far as the trend of materials prices is concerned, that the benefit of the decline has been used in all too many cases in preventing wage increases from causing a large increase in industrial costs. The result is that this country is now faced with a useful competitive advantage well-nigh gone and with the severest bout of foreign competition yet to come.

Rent Restriction in Europe

Rent restriction is not a problem which is confined to this country. A report by the Economic Commission for Europe which has been issued this week severely criticizes the operation of rent control systems throughout Europe. The survey covers ten

countries and the findings apply to all of them. In every case the investigators found rent restriction hampering the operation of the housing market, preventing the formulation of a coherent housing policy and leading to excessive housing subsidies.

Three reforms are suggested. First, it recommends that the general level of rents in relation to building costs, interest rates and subsidies should be reconsidered. Second, rents payable for substantially similar dwellings should be equalized apart from variations which would arise in a normal market. Third, to mitigate in some way the hardship which would arise from an increase in rents it suggests that governments should adjust fiscal policy to achieve the ends which have so far been imperfectly realized by rent restriction.

It is not difficult to analyse the problem of rent control and to put up a convincing case for reform. It is equally easy to show that a protracted system of that kind must result in the consumption of social capital in the form of the spread of slums. But it is exceedingly difficult to persuade anyone responsible for the political decisions involved that there is any way out of the difficulty apart from the subsidized building of new property. The fact that deterioration of existing property may be proceeding at a greater rate than new houses and flats can be built is an issue which governments are reluctant to face up to.

The Small Car Again

This has been an active summer in the motor vehicle industry and its allied trades. Now, with the Motor Show only a matter of weeks away, the arrival of yet another new small car on the market is announced. This time it is the Standard Eight. There are now four cars from makers in this country competing within this small horse-power range. These are the Ford Anglia, the Austin A30, the Morris Minor and the new Standard.

The new Standard is a particularly interesting development in the recent history of the car industry for Standard was the first company among the Big Six in the industry to pursue a bold policy after the war of concentrating production on the minimum of body designs and engines. Even this company, then, has not been able to withstand the lure of the small car market.

Two of the Big Five (there are no longer Six since the formation of the British Motor Corporation) have not yet entered the small car field - Vauxhall and Rootes. But among the other four, competition assisted by some attractive models from the Continent is likely to be exceedingly strong. It is known that Morris made a shrewd decision when they actively cultivated the potential small-car purchaser and have been well rewarded in consequence. There are reports of a new small Ford coming along shortly and this in itself is eloquent testimony that there is thought to be here a valuable market. Baby competitions in the car industry are likely to be very fashionable in 1954.

FINANCE AND COMMERCE

Renewed weakness in Wall Street has been reflected in an easier tone to equity markets in London. In Government stocks the pending Funding operation, and the Treasury's need for a firm gilt-edged market, has been a more powerful factor but the firmness does not inspire complete confidence.

Jantzen (Australia)

We have received from Mr E. B. Cheetham, the Accounting Controller of Jantzen (Australia) Ltd, in Sydney, the company's Silver Anniversary twenty-fifth annual report, and we extract from it for readers the 'Explanatory Statement of Financial Position' and the 'Explanatory Profit and Loss Statement'. Whatever can be done to get the facts across is worth while and we think this is a worth-while effort.

The annual report, as stated on its front cover, is addressed 'to shareholders, employees and business associates'. The narrow view that the report and accounts of a public company are for shareholders only, still prevails in some quarters but there is a growing tendency now to appreciate the fact that the annual publication has a wider public.

We know of one company at least that deliberately sets out to make its report and accounts a vehicle of interest, advertisement, and information to its customers and business associates all over the world. We also know of an overseas company which sends its accounts here to university and other centres of learning for the interest they may provide for students of accounts and economics.

The practice is worth extension.

Section 157

Among the accounts which have recently come to our notice are those for C. H. Bailey Ltd, drydock-owners and ship repairers of South Wales. A quarto page is given to the directors' report which, after repeating figures from the consolidated profit and loss account immediately opposite, gives a four-line paragraph to levelling out of annual charges for depreciation and taxation, and seven more lines to dividends paid and to be paid, the names of the retiring directors for re-election, and the fact that the auditors continue in office under Section 159 (2).

What becomes, however, of Section 157 of the Act about attaching to every balance sheet laid before a company in general meeting a report by the directors with respect to the state of the company's affairs etc.? Does the report in the form which accompanies these accounts meet the situation? It offers good scope for discussion.

Company chairmen can, of course, give adequate information about the state of affairs orally at the meeting but does this attach the report to the balance sheet? Nowadays, it is the rule more than the exception for the annual publication to contain all that directors feel can be said about affairs and the state-

ment and the accounts, having been in shareholders' hands for three weeks, are taken as read at the meeting.

One Square Foot

On less than one square foot of paper using both sides, the Royal Sovereign Pencil Co Ltd presents the directors' report, parent and consolidated accounts, and auditors' report. One side of the paper suffices for the combined balance sheets with narrative in single column down the centre, group figures, current and comparison, to each side of the narrative, and parent figures on the outer sides of the group.

Half the reverse is taken by the consolidated profit and loss account in single column followed by the parent appropriation statement. The other half gives the directors' names, the notice of the meeting and the directors' report.

The report gives a short summary of business conditions, mainly adverse, in the period under review. It shows that economies already made have been effective, that there has been some revival in trade, but that the improvement will have to be more marked if a loss is to be avoided in 1953. Figures are excluded from the report. There is no need for them, the revenue position being right alongside.

HH Times

The pencil-making business, according to Mr Percy Charnaud, the chairman, at the annual meeting, has been through a very hard time. The company itself has had trouble through the irregular behaviour of post-war graphite when converted into the lead slips that are finally inserted into the wooden sheaths. The company withdrew its high-grade pencils from sale rather than allow their reputation to be harmed, and as the conversion to slips takes three months, there was a backwash to be written off when it was eventually possible to change over to pure graphite.

Meantime, Germany, kept out of export markets since the end of the war, had been accumulating large pencil stocks against the time when the embargo should be lifted. When the embargo was lifted, the market was flooded with German pencils and the trade, which for years had been short of supplies, stocked up heavily. Then orders dropped. German factories, states Mr Charnaud, were cut from a 70 to a 32-hour week and the Royal Sovereign company itself sacked half its workers and put the rest on short time.

Money Market

Treasury bill applications totalled £387,950,000 on September 12th and the market obtained 68 per cent of requirements after lowering the bid to £99 8s *od*. The average rate moved out to £2 7s 11.85*d* per cent, the highest level for five months. This week's offer is £280 million and is £30 million in excess of maturities.

JANTZEN (AUSTRALIA) LTD

Explanatory Statement of Financial Position

Listing what we Owned, what we Owed, and what we were Worth at the close of our Financial Year, March 31st, 1953

Assets - What We Owned		Liabilities - What We Owed	
£			£
633	Cash on hand: This amount is the total of various petty cash and stamp funds.	Bank Overdraft (secured): This represents money borrowed from the bank for the purpose of carrying on our operations.	180,064
201,427	Accounts Receivable: Total owed us by our customers for merchandise less estimated amounts which we may not be able to collect, together with amounts due by salesmen, agents and sundry debtors.	Accounts Payable: Amounts we owed for the purchase of manufacturing materials, supplied and services, together with sundry amounts due to associated companies and others.	83,370
315	Amounts paid in Advance: In the operation of the business, services such as insurance, rates and taxes are paid in advance. This amount will be used during the ensuing year.	Provision for Sundry Expenses: This represents an estimate of sundry expenses incurred, an amount set aside for sick and holiday pay and salaries and wages earned, but not paid at March 31st, 1953.	17,277
381,047	Inventories: This is the value of raw materials, garments in work and finished products on hand or in transit at the close of the year.	Provision for Income-tax: This represents the estimated amounts due to the Australian and New Zealand Governments for income taxes.	51,591
118,331	Land, Plant and Equipment - Depreciated Cost: This is the amount we paid for our land, buildings, machinery and equipment, less an estimated allowance for loss in value because they are gradually wearing out and becoming obsolete.	Provision for Dividends Payable: This is the further amount we expect to pay to shareholders for dividends out of profits for this last completed financial year.	8,429
10,000	Patents, Trade-marks, etc.: When this Company commenced operations in 1928 the sum of £15,000 was paid to the Jantzen Knitting Mills Inc., U.S.A., by the issue of 15,000 ordinary shares of £1 each fully paid. In return an agreement was made transferring to our Company certain patents and trade-marks and giving an undertaking to supply us with technical, styling and advertising information. In subsequent years an amount of £5,000 was written off by appropriation of profit. The Company's Directors consider the value of this asset is conservatively stated.		340,731
		Shareholders' Funds - What We Were Worth	
		Capital, Reserves and Surplus: This represents the investment in the business by 252 shareholders.	371,022
<u>£711,753</u>			<u>£711,753</u>

JANTZEN (AUSTRALIA) LTD

Explanatory Profit and Loss Statement for the Year ended March 31st, 1953

(showing corresponding figures for the previous year)

1952		1953	
%	£	£	%
		Income	
	1,342,525	We received income from the sale of our products of	1,247,326
	13,821	We received other income, such as discounts, royalties, etc., of	9,376
100.00	1,356,346	Which gave us a total income of	1,256,702
		Outgo	
48.69	660,400	For materials and supplies used in our manufacturing	576,445
15.89	215,485	For expenses (other than taxes, depreciation and wages) including factory, warehouse and shipping, selling and administration expenses	225,080
1.07	14,463	For depreciation, representing an allowance which has been laid aside to replace buildings and equipment as those things wear out	15,309
65.65	890,348	Total materials, manufacturing and distribution costs	816,834
3.57	48,479	For pay-roll and income-taxes	26,534
69.22	938,827		843,368
30.78	£417,519	Leaving	£413,334
%	£	£	%
		Which was divided as follows:	
		Employees	
27.44	372,253	For wages, salaries, sales commissions and contribution to staff superannuation scheme, provided for 503 employees (613 in 1952)	393,026
		Shareholders	
1.09	14,750	For dividends to 252 shareholders (251 in 1952)	14,750
		Future Needs	
2.25	30,511	Retained to promote growth and modernization of the business	5,558

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Disclosure of Bank Interest

SIR, - The announcement regarding the Inland Revenue examination of Post Office deposits over £600 and yearly interest over £15 will not produce the requisite yield for the following reasons:

- (a) Investors whose yearly interest is below £15 may now think that it is not necessary to disclose it.
- (b) Persons who are not Post Office investors will now invest sums below £600 in the belief that disclosure of interest below £15 is not necessary.
- (c) Many investors in Post Office and Trustee Savings Banks who never disclose interest (whether under or over £15) have already closed their accounts and switched to building societies in the hope that their past investments are a closed book as far as taxation is concerned. My view is that all accounts, whatever the amount of deposit or interest, should be open to examination. If every taxpayer received a special questionnaire requiring a signed declaration regarding any untaxed interest, even if below £15, during the last six years, the results would prove a windfall to the Chancellor of the Exchequer.

Yours faithfully,

TAXPAYER.

Wife's Earnings and Child Allowance

SIR, - I should be most grateful for the opinions of your readers on the following query.

A taxpayer who is a divorcee has remarried. The taxpayer has a heavy liability under a Court order to his first family. For this reason, his present wife has to work to maintain the child of the present marriage. The Inspector insists on allocating the child allowance for this child to the husband's income, and consequently he is relieved of payment of any tax on his own earnings. Were the allowance allocated to the wife (who maintains the child), then tax would be payable by the husband, and he would receive the benefit of reduced rate relief. The Inspector's contention is that the only allowances to be deducted from the wife's earned income are:

- (1) wife's earned income allowance;
- (2) earned income allowance;
- (3) wife's national insurance.

I contend, however, that Section 220 of the Income Tax Act, 1952, was provided merely to ensure that the above allowances were the only ones to be deducted *in computing the wife's reduced rate relief*.

In other words, that they are purely notional deductions for that purpose, and that having computed the wife's reduced rate relief by reference to these deductions only, then any allowance could be given to the wife, provided that the husband agreed.

It seems unthinkable that a wife should not be able to have the allowance for a child which she

maintains and, moreover, it appears that Section 220 was provided so as to prevent the switching of allowances from the wife to the husband. The latter would normally have the larger income, and such switching would enable the wife to obtain maximum reduced rate relief, instead of her husband paying tax at (say) standard rate. In this case it is desired to switch in the opposite direction, viz., from the husband to the wife, and the denial of reduced rate relief is a denial of that relief to the husband. It appears that provisions provided to prevent artificially high reduced rate relief to the wife are being used to prevent the husband obtaining reduced rate relief.

Were the wife to claim separate assessment it seems difficult to imagine that the Inspector could refuse to allocate to her the child allowance for a child whom she maintains, and yet he contends that he would so refuse. He even says that a dependent relative allowance for a wife's widowed mother would have to be given to the husband, so as to satisfy Section 220.

Further, it has always been an axiom that allowances should be granted in the manner most beneficial to the taxpayer, e.g. deduction of charges firstly from unearned income.

I suppose as a last resort the wife could covenant to the husband an annual sum (on condition that he maintained the child) and in that case the husband would be entitled to the child allowance and his income would then be sufficient for him to take reduced rate relief.

Yours faithfully,

A.A.C.C.A. BIRMINGHAM.

Schedule E: Expenses

SIR, - First of all may I offer my profound apologies to your correspondent, Mr E. J. N. Nabarro, for causing him 'some concern' (issue September 12th). Nothing was further from my thoughts.

With regard to the question of certainty in the matter of Schedule E expenses, the Income Tax Act, 1918, quotes only one example, namely, the use of a horse. If, therefore, Mr Nabarro wishes to be quite, quite certain that his staff expenses will be allowed without question, the way is open - he must follow the lead given by the Income Tax Act, 1918, and send them out to audits on horseback.

May I say, with respect, that income-tax cannot be argued by analogy. We cannot, for example, argue whether the profits of a margarine manufacturer are or are not taxable because profits made by a gun-maker are (or are not) taxable.

In all income-tax problems we are confined to the facts of the particular case. The facts of the case giving rise to this correspondence concerned the employment of a 'chauffeuse' and whether the

expense was claimable by the taxpayer incurring this expense under Rule (g). I expressed the view it was not so claimable and gave reasons. I adhere to the view I expressed, but I expressed no view concerning staff expenses of a professional accountant. There is, of course, no similarity whatsoever between the two types of expenses mentioned.

Yours faithfully,

London, EC2.

E. HARMAN.

Tax Appeals Pressure

SIR, - I have found members of all three accountancy bodies in this district very perturbed with the effect of the Inland Revenue drive. In particular, cases are being called for appeal much faster than they can be coped with and in many cases the Revenue are asking for work to be completed in an impossible time. I believe members of each body would appreciate some action to relieve the strain. Would it not be possible for the three bodies to join in an approach to the Inland Revenue with a view to obtaining:

- (a) Six months' moratorium on all appeals.
- (b) An undertaking that where an assessment is confirmed before the Commissioners without production of accounts the Revenue will agree to re-open the case provided accounts are lodged within six months.

While in the main the individual Inspectors are most reasonable, they claim they are instructed by headquarters to get all work up to date. Unfortunately, the great number of new taxpayers and the number of small cases which have become back-duty cases make the strain on the profession nearly intolerable. The Inland Revenue themselves had to seek relief in the matter of the quinquennial valuation and I think the profession should be able to obtain at least as much consideration. I am sure that it would add to the dignity of the profession if it were shown that accountants have some voice in this matter.

Yours faithfully,

Cardiff.

E. E. HALLETT.

Accounting for Inflation

SIR, - Possibly partly as a result of the reduced profits announced by many companies in recent months - particularly the textile trade - the demand for accounting reforms has slackened off lately, and the correspondence on inflation accounting has rather bogged down in an abstruse argument as to the correct conception of profit. May I take advantage of the temporary lull to suggest that the difficulties of the problem have been rather exaggerated, and that if, after several years, little real progress has been made, it is because the most reasonable line of approach, the one indicated by the Institute in its memorandum on the subject, has been largely overlooked.

The final paragraph of that memorandum recommends company directors and accountants to draw attention to the desirability, *inter alia*, of experimenting with methods of measuring the effects of

inflation, and envisages the publication of the results in the form of statements supplementary to the orthodox accounts. That is the method by which the problems presented some years ago by the growth of the holding company organization were met and solved. Consolidated accounts have now not only acquired legal recognition and render indispensable service to the investor - and to management - but have led to the recognition by the Treasury of the special features of the group organization from a tax point of view, resulting in appropriate treatment in fiscal legislation.

It seems a fair assumption that if the problems of inflation accounting are tackled in the same way, the same results will be achieved, and not only will the criticisms aimed at orthodox accounting from both inside and outside the profession be met, but the effects of both inflation and taxation on industrial profits may be clarified, and public and governmental opinion prepared for any taxation reforms which seem justified.

The main reason why none of the methods so far suggested has met with much support is, at least in my view, that they have all been tied to the double-entry system, and have involved a compromise with the orthodox methods, rather than a separate development. This has led, in many of the proposals, to the creation of complex reserves which would make their results far less comprehensible to the investor than the orthodox type of accounts. It has also led to such anomalies as the proposal to show stocks in the balance sheet on a quasi base-stock basis in order to charge replacement cost against profits - thus making the value of current assets quite as unrealistic as the value of fixed assets on the orthodox basis, and leaving the unfortunate investor as much in the dark as ever.

The difficulties which this form of approach has been unable to overcome do not arise in the case of supplementary statements. These need not comply with the legal requirements or financial traditions to which the published accounts are subject. Each one can be prepared entirely independently to achieve its desired object; there is no necessity for it to be integrated with another. Such statements can adhere to what one might term the pure principles of inflation accounting - when, I hasten to add, they have been hammered out by practical trial and error. In addition, this method has two outstanding advantages, the first being that it avoids the dangers of experimenting with alterations to the orthodox methods of book-keeping and accounting, and particularly asset valuation, and the second that it does not involve a disproportionate addition to the work of company accounts departments. Many companies have already collated much of the information which would be necessary for inflation statements, as a result of F.B.I. investigations, and their preparation should not constitute a much heavier burden than, say, the Census of Production, or many other of the odd jobs which have to be done nowadays.

The object of this letter is not to air the writer's

own views on inflation accounting, but it may not be out of place to indicate briefly the lines on which I think inflation statements are likely to develop if a serious approach is made on the lines suggested by the Institute. Presumably an assets statement and a profits statement will be needed. The first would, no doubt, show the present worth of the assets on a replacement cost basis. The present value of the money put up from time to time, whether loan or share capital or profits ploughed back, would also be shown in such a form that the extent to which each type of capital had suffered or gained as a result of inflation would be made clear – including, in the case of the equity, the extent to which it had benefited from the losses sustained by prior fixed loan or preference capital. The difference between the present value of the money invested and the present value of the net assets would be written-off as representing the overall loss or gain due to inflation.

My reason for thinking that the effect of inflation on each class of capital would be shown is that if it ever becomes generally accepted that industry is only to be taxed on the surplus remaining after its stocks and equipment have been fully maintained (a theory to which many industrialists and economists seem to subscribe), then in equity some adjustment would seem to be called for between fixed and ordinary capital, for which purpose this information would appear to be essential.

The profits statement would presumably show what the profits would have been if the costs, those connected with asset usage in particular, had been incurred by reference to present values – that is, on the assumption, broadly speaking, that all savings in costs due to inflation are eliminated. The profit would then be adjusted to that shown by the orthodox accounts by bringing in the difference as profit or loss arising from inflation. Finally, the tax provision would be divided between that provided on the real profit, and that provided on the inflation profit. This would furnish information for a study of the effects of inflation on taxation and vice versa, and of the results likely to follow any proposed modification of taxing principles.

With regard to costs, considerable controversy would no doubt arise on such points as to whether or not, if asset usage is costed on present values of plant, buildings, etc., interest on loan capital should not also be costed on present values of the money borrowed to finance such assets; and whether replacement cost of goods and materials should replace the historical cost. If these problems could not be resolved, there would, of course, be nothing to prevent their effect being shown by suitable entries; in fact, owing to the flexibility of this approach, two or even more profits statements could be prepared, if desired – although only one would be likely to be published.

If any worth-while experiments in inflation accounting are to be made it would appear that one essential will be uniform price-indices for converting values of money and assets, going back over a period

of at least sixty years, and kept right up to date at all times. At present it is both difficult and expensive to obtain suitable indices, which seldom cover a long enough period, and are usually a year behind. The leading accounting bodies would render a valuable service if, in conjunction with the Board of Trade, they could provide uniform and adequate indices suitable for accounting purposes.

Yours faithfully,

London, EC4.

A. R. ANDREW, A.C.A.

Accountants' Christian Fellowship

SIR, – I read with considerable interest Mr Bruce Jones's letter in your issue of August 29th proposing the formation of an accountants' Christian fellowship, and should be grateful if you would convey to Mr Jones my interest in his proposal.

I should welcome the opportunity of meeting those of my fellow accountants, both in industry (like myself) and in practice, who are concerned to make our faith a living witness among those with whom we are in working contact.

I shall study the correspondence columns of *The Accountant* during the next few weeks in expectation of further developments, and would offer Mr Jones sincere thanks for his initiative in this matter.

Yours faithfully,

LESLIE W. BRYANT, A.A.C.C.A.

Ipswich, Suffolk.

SIR, – I would like to express my appreciation of the response by readers to my letter published in your issue of August 29th. I am still receiving letters in reply, the number so far being about eighty, though this figure is not a true indication of the number of readers who are interested as some of the letters represent individuals and others the staffs of firms; again, I know other accountants who are interested but who have not written to me.

In view of this response, I feel encouraged to make arrangements for a meeting in London to be held as soon as possible in order to form a committee, and I should be grateful to you, sir, if you would kindly publish further details which I shall hope to send you in due course.

I would like to mention one feature about the letters that I have received: with few exceptions the writers appear to be members of the profession who are in practice. It does seem to me that if an object of the proposed fellowship is to encourage Christian accountants to meet, where their work makes it practicable for them to do so, there is a great need also for members of the profession who are in commerce and industry.

May I ask readers who are in commerce or industry (and if they are already members of their firm's Christian Union so much the better) to consider this suggestion?

Yours faithfully,

Wembley Park, Middlesex.

BRUCE JONES.

[We shall be glad to publish the further information which Mr Jones proposes to send us. – Editor.]

REVIEWS

**The Profits Tax
Second Edition****by Roy Borneman, Q.C. and
Percy F. Hughes, A.S.A.A.**

(Taxation Publishing Co Ltd, London. 21s net)

The five years which have elapsed since the appearance of the first edition of this excellent text-book have been eventful for profits tax, and a new edition was imperative. Besides the copious legislation on the subject in that period, there has been a good deal of case law, and much that was uncertain five years ago is now settled practice. It is not surprising therefore that the second edition is half as long again as the first. The method of presentation is as before and this needs no introduction. There is a new chapter devoted to the anti-avoidance provisions while an additional appendix deals fully with the effect of the profits tax on profit-sharing and commission agreements.

**Introduction to Income Tax
Tenth Edition****by E. D. Fryer, A.A.C.C.A.**

(Sir Isaac Pitman & Sons Ltd, London. 7s 6d net)

This introduction claims to cover the income-tax requirements of the Intermediate examinations of the various professional accountancy and secretarial bodies. Its approach is refreshingly out of the ordinary and it should hold its own in what has become a highly competitive field. Perhaps the revision for the tenth edition of such a short book could have been more thorough; Schedule B assessments on woodlands are based on one-third of the annual value, not the full amount, and the allowance of gross annual value for factories is obsolete.

**Spicer and Pegler's Income Tax
and Profits Tax****Twentieth Edition****by H. A. R. J. Wilson, F.C.A., F.S.A.A.**

(H.F.L. (Publishers) Ltd, London. 30s net)

This new edition incorporates the changes of references made necessary by the passing of the Income Tax Act, 1952. It also deals with the changes wrought by the Finance Act, 1952, while a supplement deals briefly with the Finance Act, 1953. It is some twenty-five years since Mr Wilson took over the editorship of this well-known text-book and his reputation as an expert and a teacher is high. In the knowledge that the excellencies of the book are already sufficiently well known, we take the liberty of a little criticism. The statement on page 472 about the effect of the Finance Act, 1937, Fourth Schedule, paragraph 5 (reported there as paragraph 6) is negated by *C.I.R. v. Dowdall, O'Mahoney & Co Ltd* ([1952]

33 T.C. 259; 31 A.T.C. 126). A statement in the supplement as to the effect of the Finance Act, 1953, Section 18 (2) on farm-houses and farm cottages seems to be misconceived in view of the fact that the section deals only with industrial buildings.

**Taxation Manual
Seventh Edition****Compiled by Barristers and Experts under the
direction of Ronald Staples, Editor of Taxation**(Taxation Publishing Co Ltd, London. 20s net,
20s 7d post free)

This new edition of the ever-popular *Taxation Manual* is the first since the Consolidation Act. The text has been revised and all the references have been brought up to date, the old references being retained where this was considered an advantage.

Notwithstanding the handy and convenient size implied in its name, the Manual contains a good deal of information of practical use which one looks for in vain in larger tomes. This is particularly so in the case of Schedule A, a subject which is going to be of the first importance when the new revaluation is under way. Another useful feature of the book is a table of penalties.

As with previous editions, the new one contains a registration slip, completion of which entitles the reader to receive gummed amendment slips from time to time.

**Taxation Key to Income Tax and Surtax
Finance Act Edition, 1953
Edited by Ronald Staples**(Taxation Publishing Co Ltd, London. 7s 6d net,
7s 9d post free)

No matter what weighty tomes on income-tax the student or practitioner may have, he will do well to possess himself of this small and handy guide, now in its thirty-seventh edition. On one not very abstruse point with which the reviewer was recently concerned it supplied some useful information which was not available in any other text-book – and this without lengthy searches, for the book is so arranged that the appropriate passage can be found in a matter of seconds. There is also a useful and lucid summary of Irish tax law, practically unobtainable elsewhere; all this for much less than it costs to bind a book.

**Income Taxes in the Commonwealth
Volume II**

(H.M.S.O., London. 30s net, by post 31s net)

The Inland Revenue have now completed their Herculean task of condensing into two volumes accounts of the income taxes in every part of the Commonwealth. Volume I, which we reviewed on

March 8th, 1952, dealt with taxes in the Dominions. Volume II deals with taxes on income in the Isle of Man, the Channel Islands, Southern Rhodesia, Colonies, Protectorates, and territories under United Kingdom trusteeship.

The book is up to date to the end of August 1952 and deals in general with the year 1951; however, annual supplements will be issued as is already being done with Volume I.

In view of the painstaking care which has been taken to collect so much detailed information from such a wide area, and to summarize it in a lucid and pleasing style, the book is extraordinarily good value. Anyone who buys this by-product of an efficiently-run department is enjoying a hidden subsidy.

Trusts and Foundations

Compiled by Guy W. Keeling, B.A.

Edited by Thomas Landau, A.L.A.

(Bowes & Bowes (Publishers), Cambridge.

£2 2s 0d net)

The interest and topicality of this entirely new kind of book are undeniable. It was much spoken of in the recent House of Lords debate on charities and is a useful companion volume to the Report of the Committee on Charitable Trusts (Cmd. 8710). It contains brief details of some 1,000 charitable trusts, carefully selected to give an illuminating cross-section. As there are more than 100,000 charities in England and Wales alone, it could hardly do more than that. Its uses will be many, particularly to those seeking to give or receive charity of a particular kind, either for themselves or for others. For that reason the publication has been endorsed by an imposing list of bodies, including the National Council of Social Service. The intention is to follow up this pioneer volume with subsequent editions of wider scope and usefulness – an enterprise which deserves the greatest encouragement.

British War Production

by Professor M. M. Postan

The Control of Raw Materials

by J. Hurstfield

(H.M.S.O., London, and Longmans, Green & Co, London. 32s 6d net and 35s net, respectively)

The above further volumes are now available in the admirable series of civil histories of the Second World War. Professor Postan's study of the munitions industry explains in detail why the rearmament drive, which began in 1934, was so painfully slow in gaining impetus and how it did not reach peak production until the war was already nearing an end. The stages of progress were marked by three major happenings – Munich, Dunkirk and Pearl Harbour. Perhaps the most absorbing part of the history is the final phase from Pearl Harbour until victory in Europe. In that one period, the industry caught up with and indeed surpassed itself and then began

to slow down towards the first of the three stages of demobilization. The timing of the effort may have been imperfect, but the result, despite all the futilities and frustrations of an all-out war, was a triumph for British endurance, ingenuity and craftsmanship.

Mr Hurstfield has a less spectacular but equally important story to tell, for if the armament industry had not been supplied with the raw materials at the right time, the war – if not the world – might have gone out with a whimper instead of a bang. He describes the history of controls between the First and Second World Wars: the plans made by the Government for estimating demand and controlling supply, manœuvres made doubly difficult by import and export complications: Anglo-French and Anglo-American supply relations; the efforts made by this country to produce for her own needs certain materials hitherto imported; pricing and costing policies; and, in a final section, the machinery of control. To have compressed the history of this momentous revolution in the commercial life of the nation into 500 pages and yet to have given such full consideration to each of its many aspects is a fine achievement on the part of the author.

SHORTER NOTICE

BOLD ADVENTURE (National Provincial Bank Ltd, 15 Bishopsgate, London, EC3). This interesting and well-illustrated booklet, written by Aytoun Ellis, gives, in twenty-six pages, a brief history of the foundation and origins of the National Provincial Bank, which this year celebrates its 120th birthday.

PUFFS, BALLOONS AND SMOKEBALLS, by A. Laurence Polak, illustrated by Leslie Starke. (Justice of the Peace Ltd, 12s 6d net.) This book is a collection of humorous articles which appeared during 1951 in the *Justice of the Peace and Local Government Review*. The title is taken from the first article which consists of reflections on the classic case of *Carlill v. Carbolic Smoke-ball Company* ([1893] 1 Q.B. 256), familiar to all who have studied the law of contract. There are twenty-one articles and ten illustrations and they all follow the same pattern of topicality with a legal flavour.

RECENT PUBLICATIONS

C.P.A. PROBLEMS AND QUESTIONS IN THEORY AND AUDITING, Fourth Edition, by Jacob B. Taylor, M.A., D.ADM., C.P.A. and Hermann C. Miller, M.A., C.P.A. viii + 640 pp. 9 × 6. 56s net. McGraw-Hill Publishing Co Ltd, London.

KEY TO PROFITS TAX by Ronald Staples. 248 pp. 8½ × 5½. 7s 6d net; 7s 9d post free. Taxation Publishing Co Ltd, London.

THE ADMINISTRATION OF INSOLVENT ESTATES IN SOUTH AFRICA, by David Shrand, B.COM., A.S.A.A., C.A.(S.A.). xviii + 472 pp. 9½ × 6½. 67s 6d net. Juta & Co Ltd, Cape Town and Johannesburg.

INTRODUCTION TO ENGLISH LAW, 2nd edition, by Philip S. James, M.A., Barrister-at-Law. 448 pp. 8½ × 5½. 15s net, by post 16s 6d. Butterworth & Co (Publishers) Ltd, London.

GENERAL COMMERCIAL AND FINANCIAL KNOWLEDGE FOR EXAMINERS by E. Miles Taylor, F.C.A., F.S.A.A. x + 214 pp. 9 × 5½. 12s 6d net. Textbooks Ltd, Harpenden, Herts.

EXCESS PROFITS LEVY

The Excess Profits Levy (Metals, Oil and Mineral Producing Concerns) Regulations, 1953

We reproduce below the text of these Regulations¹ which came into operation on September 14th, 1953, together with the Explanatory Note. The Treasury announcement of the relief from excess profits levy allowed under these Regulations was published in our issue of August 29th last at page 267.

Citation and commencement

1. These Regulations may be cited as the Excess Profits Levy (Metals, Oil and Mineral Producing Concerns) Regulations, 1953, and shall come into operation on the fourteenth day of September, nineteen hundred and fifty-three.

Interpretation

2. The Interpretation Act, 1889, shall apply to the interpretation of these Regulations as it applies to the interpretation of an Act of Parliament.

Rules

3. Where the Treasury certify under subsection (1) of Section 56 of the Finance Act, 1952, as amended, that an increase in output of any metal, or of oil or of any mineral, over output at the normal rate is essential in the national interest and a body corporate carrying on a trade or business which consists of or includes the mining of that metal, the getting of oil from oil-wells or the winning of that mineral from a natural deposit of a wasting nature elects that its profits shall be computed, for the purposes of the excess profits levy, in accordance with the provisions of the said Section 56, the rules laid down by the following Regulations shall be followed in relation to that body corporate (unless and until that certificate is revoked), in determining for the purposes of that section, as amended, the respective matters referred to in subsection (8) thereof.

Output and additional output

4. Subject to the provisions of the proviso to subsection (3) and of subsection (4) of the said Section 56, the output in relation to any accounting period of a body corporate shall be the amount of the metal, oil or mineral sold in that period, being metal, oil or a mineral mined, got or won by the body corporate and additional output shall be determined accordingly.

Profit at the normal rate

5. Subject to the provisions of Regulation 6 of these Regulations, the amount to be taken to represent profit at the normal rate for any chargeable accounting period on any additional output shall, where the body corporate's standard profits for a full year are calculated by reference to its profits during the standard years, be the amount which would have been the profit on that additional output if the rate of profit thereon had been the same as the average rate of profit which was earned on the actual output of those standard years. For this purpose the aggregate profits of the body corporate on its output for those standard years shall be divided by the aggregate output for those years.

6. Where—

- (a) the body corporate's standard profits are calculated otherwise than by reference to its profits during the standard years; or
- (b) it has made an election under paragraph (a) of subsection (4) of Section 38 of the Finance Act, 1952; or
- (c) it is a member of a group within the meaning of the Twelfth Schedule to the Finance Act, 1952, and its share under paragraph 9 of the said Schedule in the composite figure for the group is nil,

the amount to be taken to represent profit at the normal rate for any chargeable accounting period shall be determined having regard to the general conditions of the class to which the body corporate's trade or business belongs, the particular circumstances of the body corporate and, where the body corporate is a member of a group, the circumstances of the other members of that group.

7. Where a standard year or chargeable accounting period is not an accounting period subsections (2) and (3) of Section 45 of the Finance Act, 1952, shall apply to the ascertainment of output in that year or period in the like manner as it applies to the ascertainment of the profits for such year or period.

Dated this third day of September, 1953.

Hendrie D. Oakshott,

Dennis Vosper,

Two of the Lords Commissioners
of Her Majesty's Treasury.

EXPLANATORY NOTE

(This Note is not part of the Regulations, but is intended to indicate their general purport)

Section 56, Finance Act, 1952, as amended by Section 27 (3), Finance Act, 1953, provides that, if the Treasury certify that an increase in output of any metal, or of oil or asbestos or any other mineral, over output at the normal rate is essential in the national interest, a body corporate whose trade or business consists of or includes the mining of the metal, the getting of oil from oil-wells or the winning of the mineral from a natural deposit of a wasting nature and which, in the period for which Excess Profits Levy is charged, makes profits from an increase in its output of the metal, etc., over its normal rate of output may claim a deduction from its profits, for the purposes of the Excess Profits Levy, equal to profit at the normal rate on the additional output achieved in the Excess Profits Levy period. These Regulations, pursuant to subsection (8) of Section 56, Finance Act, 1952, lay down rules for determining in the case of such claims (i) what is the additional output in any period and (ii) what is the profit at the normal rate on any output.

¹ S.I. 1953, No 1346, H.M.S.O., 3d net.

NOTES AND NOTICES

Personal

MESSRS CECIL HALPERN & Co, Chartered Accountants, of 18 Charing Cross Road, London, WC2, announce that they have admitted into partnership Mr Sidney G. Halpern, A.C.A., who has been associated with the firm for a number of years. The style of the firm will remain unchanged.

MESSRS ERNEST FRANCIS & SON, Chartered Accountants, of 8 Forbury, Reading, announce that as from September 14th, 1953, they have opened a branch office at 37B Winchester Street, Basingstoke. Telephone: Basingstoke 1551.

MESSRS RUSSELL & MASON, Chartered Accountants, of St Martin's House, 29 Ludgate Hill, London, EC4, announce that Mr W. R. G. Weaver, A.C.A., formerly chief accountant, Ministry of Supply, has joined them in partnership.

MESSRS MCPHERSON, TIMMINS & EDNIE, Chartered Accountants, of 7 St Paul's Square, Bedford, announce that as from September 28th, 1953, their address will be 15 Goldington Road, Bedford. The telephone numbers remain unchanged.

MESSRS J. SEDGWICK & Co, Chartered Accountants of 16-17 College Green, Dublin, announce that the partnership hitherto existing between Messrs Alfred E. Dawson, F.C.A., Howard W. Robinson, F.C.A., John C. Magowan, F.C.A., and Stan. H. Polden, A.C.A., has been dissolved by mutual consent on and from September 1st, 1953, following the retirement from the partnership of Messrs H. W. Robinson and S. H. Polden. The practice of Messrs J. Sedgwick & Co will be continued at the same address by Messrs A. E. Dawson and J. C. Magowan. In future, Messrs H. W. Robinson and S. H. Polden will practice under the name of Polden, Robinson & Co at 2 Lower Merrion Street, Dublin.

MESSRS G. RUSSELL & Co, Certified Accountants and Cost Consultants, of 35 Hartington Road, West Ealing, W13, announce with deep regret the death of their senior partner, Mr George Russell, F.A.C.C.A., F.C.W.A., on September 9th, 1953.

Professional Note

Mr P. M. Rees, M.C., F.C.A., has been appointed a director of The Wellcome Foundation.

Obituary

ANDREW ANGUS CAMPBELL, C.A.

We regret to record the sudden death on August 24th, while on holiday, of Mr Andrew Angus Campbell, C.A., secretary of Morton Sundour Fabrics Ltd.

Articled to Messrs Moores, Carson and Watson of Glasgow in 1908, Mr Campbell returned to that firm after a break from 1914 to 1918 when he served with the Highland Light Infantry. He was admitted to membership of The Institute of Chartered Accountants of Scotland in 1921 and two years later joined the Singer Manufacturing Company as a senior accountant, leaving that company in 1937 to take up the appointment he held at the time of his death.

A keen sportsman and motorist, Mr Campbell was a member of the Carlisle Civil Committee of the Air Training Corps and also of the Cumberland and Westmorland Archaeological Society.

The Late Mr H. Crewdson Howard, F.C.A.

A memorial service for the late Mr H. Crewdson Howard, F.C.A., will be held on Thursday, October 1st, at 12 noon, at St Margaret's, Lothbury, London, EC2.

The Institute of Chartered Accountants in Ireland

QUARTERLY MEETING OF THE COUNCIL

Mr Patrick Butler, F.C.A., *President*, presided at the quarterly meeting of the Council of The Institute of Chartered Accountants in Ireland, held in Dublin on August 28th, 1953, at which Messrs F. Cleland, *Vice-President*, H. E. A. Addy, A. E. Dawson, W. H. Fitzsimons, G. F. Klingner, H. Trevor Montgomery, P. J. Purtill, and J. Walker were also present, with the *Secretary*, Mr Wm. E. Crawford, and the *Joint Secretary*, Mr H. Stevenson, in attendance. Apologies for absence were received from Messrs J. Bailey and E. T. McCarron.

Associateship in Practice

Mr Denis Gordon Sheriff, A.C.A., was admitted to practice, having become resident partner of Peat, Marwick, Mitchell & Co in Tokyo, Japan.

Membership

The following successful candidates at the Final examination in May 1953 applied for and were admitted to membership:

As Associates in Practice:

Columbanus Sean Finegan, Belfast; Peter Joseph O'Hara, Belfast.

As Associates not in Practice:

Donald Ernest Archer (Dublin); William Montgomery Carson (Mallusk, Co. Antrim); Gerald Leo Carton (Dublin); James Cornett (Belfast); Malcolm Davison (Belfast); Thomas Roland William Dark (Bangor, Co. Down); James Mervyn Devlin (Belfast); Thomas Donnelly (Dublin); George Evans Egar (Dublin); Harold Alexander Ennis (Belfast); Joseph Gerard Geary (Limerick); Edward James Hayes (Dublin); John Joseph Kelly (London); Owen Joseph Lemass (Dublin); John Robinson Loughhead (Portadown, Co. Armagh); Ian David McLerie (Carrickmacross, Co. Monaghan); Brendan Joseph Martin (Dublin); Maurice Murray-Hayden (Dublin); Denis Gerard Mary O'Kelly (Dublin); Donal Joseph O'Mahony (Dundalk, Co. Lough); Dermott O'Neill (Limerick); John Francis Ross (Dublin); David Gerard Wilkinson (Sutton, Co. Dublin).

Deaths

The deaths of the following members were reported by the Secretary and noted with regret:

Philip Barrie Dudgeon, associate not in practice (Belfast), on June 30th; William Cecil Guiler, associate not in practice (Drogheda) on July 8th.

Resignation from Council

The resignation of Mr E. T. McCarron, F.C.A., from the Council was accepted with the deepest regret.

Andrew Henry Strachan, C.B.E., A.C.A.

The President undertook to convey to Mr Strachan (Secretary to the Treasury, Southern Rhodesia, and Vice-chairman of the Rhodesian Railway Board) the congratulations of the Council on the Knighthood conferred upon him in the Coronation Honours List – the President and Mr Strachan having been articled pupils in the same office in Dublin.

Next Examinations

It was decided to hold the next examinations – Preliminary, Intermediate and Final – on November 17th to 20th, 1953, in Belfast and Dublin.

Census of Production for 1954

The scope of the census of production to be taken in 1955 in respect of the year 1954 and the information to be obtained have now been considered by the Census of Production Advisory Committee. It has been decided that all establishments within the field of production will be included in the census, which will be on similar lines to the full 1951 census.

The statutory form of return will include questions on (1) working proprietors; (2) number of employees; (3) wages and salaries, etc.; (4) capital expenditure on plant, machinery and vehicles; (5) capital expenditure on new building work; (6) materials and fuel purchased; (7) work given out; (8) stocks at the beginning and end of the year; (9) output; and (10) transport payments. The questions on (1), (2), (4), (5), (7), (8) and (10) will be broadly the same as for 1951. In the wages and salaries section (3), firms will be asked to give information about employers' payments to superannuation and other pension funds, etc., as well as their contributions to all national insurance schemes. This will help to complete the information available about labour costs.

In the materials section (6), firms will be asked to state, as in the 1948 census, the total cost of materials and fuel purchased with details, by quantity and value of the principal items purchased. In the output section (9) firms will be asked to show the total value of sales and

work done, with details of sales of each of a number of products, on the lines of the detailed form used for 1951. Firms in the field of production requiring further particulars about the census for 1954 should address their inquiries to the Census of Production Office, Neville House, Page Street, London, SW1, stating the nature of the business carried on.

South London Chartered Accountants' Discussion Group

The South London Chartered Accountants' Discussion Group are resuming their meetings on October 5th, next, and will meet on the first Monday of every month thereafter at *The Kingston Hotel*, Kingston, at 6.45 for 7 p.m. They are always pleased to welcome new members.

The following are subjects which have been selected for discussion during the winter session, the first one being discussed on October 5th:

1. Has the small professional office any future?
2. Does the future of the profession lie in the hands of the industrial accountant?
3. Is standard costing always worth while?

The Chartered Accountant Students' Society of London

The autumn session of the London Students' Society begins next Friday, September 25th, with a meeting at the Institute for new members.

The introductory course of lectures for newly articled clerks on Friday evenings meets first on October 2nd, when lectures on 'The fundamentals of business' and 'The English judicial system' will be given.

The general lecture programme on Monday evenings opens on September 28th with a lecture on 'Fraud in accounts'.

Programmes will be posted to members during next week and detailed announcements of the Society's activities during the autumn session will appear in *The Accountant*.

Manchester and Liverpool Students' Residential Courses

The Manchester and Liverpool Societies of Chartered Accountants are combining to run the ninth joint residential courses for Intermediate and Final students at Burton Manor College, Burton-in-Wirral, Cheshire.

The Intermediate course extends over four-and-a-half working days and the Final course over five working days; the Intermediate course assembles on the morning of Monday, September 28th and disperses after tea on Friday, October 2nd, on which date the Final course

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will assemble before supper, dispersing after tea on Wednesday, October 7th.

Further information may be obtained from the joint Hon. Secretaries, Mr F. C. Hoyle, B.A., F.C.A., 61 Brown Street, Manchester, 2, or Mr N. G. Willis, A.C.A., 24 Fenwick Street, Liverpool, 2.

Chartered Accountants' Hockey Club

The Chartered Accountants' XI won its return match with the Bank of England by a hard-fought four goals to three on Wednesday, September 9th, at the Bank of England Sports Ground, Roehampton. The first match played on August 12th, had ended in a 5-1 victory for the Bank.

The chartered accountants had a well-balanced side with a strong attacking forward line pivoting on R. J. C. Mallinson and I. S. S. Ferris and a solid defence with A. E. Day and D. A. Tripp at full back and J. S. Kinross in goal. The Bank of England opened the scoring in the first few minutes of the game but the Institute retaliated immediately when R. J. C. Mallinson drew the Bank goalkeeper out of position and scored. The chartered accountants kept up the pressure against a strong defence with an outstanding goalkeeper and R. J. C. Mallinson finally broke through and scored again. The Bank of England equalized with a second goal before the interval.

During the second half the Institute again took the offensive with J. A. Hume and C. J. Stewart sending in well-placed centres, but from a break-away by the Bank centre forward, the Bank of England took the lead with the score at 3-2.

The Institute returned to the attack and scored through R. J. C. Mallinson to equalize. Shortly afterwards, I. S. S. Ferris hit the winning goal from the edge of the circle.

The Institute was represented by:

J. S. Kinross (*Guildford*), A. E. Day (*Harrow H.C.*), D. A. Tripp (*Surbiton*), M. R. Harris (*South Saxons*), R. P. Wright (*Cheam*), S. J. Titcomb (*Burgess Hill*), J. A. Hume (*Barnet H.C.*), C. P. Mahne (*Mid Surrey*), R. J. C. Mallinson (*Hampstead*), I. S. S. Ferris (Captain) (*Hawks*), C. J. Stewart (*Dulwich*).

Fixtures for the coming season have been made with the Law Society, the Stock Exchange, the Royal Institution of Chartered Surveyors and Oxford University Occasionals. The season ends with the annual game between members and articled clerks.

Players who are interested in playing for the Chartered Accountants' XI are requested to get in touch with the Hon. Secretary of the Chartered Accountants' Hockey Club, Mr C. O. Merriman, A.C.A., of Price Waterhouse & Co, 3 Frederick's Place, Old Jewry, EC2.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 22ND, 1928
The Institute of Chartered Accountants

AUTUMNAL MEETING

Birmingham, 11th, 12th and 13th October, 1928

The Council have accepted the invitation of the Birmingham and District Society of Chartered Accountants to hold the next autumnal meeting in Birmingham.

ORDER OF PROCEEDINGS

Thursday, 11th October.

11.30 a.m.—Welcome at the Council House by the Right Hon. the Lord Mayor of Birmingham (Alderman Alfred James, C.B.E., J.P.).

11.45 a.m.—Address by the President of the Institute, Sir Nicholas Waterhouse, K.B.E., F.C.A.

11.15 p.m.—Luncheon at the Grand Hotel, at the invitation of the Birmingham and District Society of Chartered Accountants.

3.0 p.m.—Reading of Paper by Sir Gilbert Garnsey, K.B.E., F.C.A., on "Limitations of a Balance Sheet."

3.0 p.m.—Visit by the ladies to the Botanical Gardens.

8.0 p.m.—Reception by the Right Hon. the Lord Mayor at the Council House.

Friday, 12th October.

11 a.m.—Reading of Paper by Mr H. Lakin-Smith, F.C.A., on "If I were the Chancellor" or "Budgetary Finance."

1.0 p.m.—Luncheon at the Grand Hotel, at the invitation of the Birmingham and District Society of Chartered Accountants.

2.45 p.m.—Visit to Dunlop Works; Austin Motor Works; Chance's Glass Works.

2.45 p.m.—Golf Competition, Moseley.

7.30 p.m.—Banquet at the Grand Hotel, tickets £1 15s. each, inclusive of wines. Seats will be reserved for ladies at the Repertory Theatre.

Saturday, 13th October.

10.0 a.m. Visit to Stratford-on-Avon and Warwick.

1.0 p.m.—Luncheon at Town Hall, Stratford, at the invitation of the Birmingham and District Society of Chartered Accountants.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 21ST, 1878
"Toss-up"

A legal contemporary says—"Sir —, who was called upon to hear a case in the Warwick County Court which required the decision rather of a farmer than a lawyer, threw out the suggestion that the parties, instead of appealing to him, had much better adjourn to some convenient place and toss-up. We should advise this learned judge, if he wishes to indulge in similar remarks again, to do so in the absence of reporters, as such language is not calculated to inspire the public with that respect which is due to his judicial position."

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on September 2nd, 1953, who completed their Fellowship or Membership before September 15th, 1953.

Associates elected Fellows

Bonn, Alfred Howard; 1933, A.C.A.; (Howard Bonn & Co), 73-74 Marylebone High Street, London, W1.
 Counsell, Bernard Gilpin, Junr.; 1937, A.C.A.; (William Heppard & Sons), William Deacons Bank Chambers, Cleveleys, Blackpool.
 Davies, John Hurlie; 1948, A.C.A.; (Fairhead, Davies & Co), 125 High Holborn, London, WC1.
 O'Connor, Edward Derek; 1947, A.C.A.; (Derek E. O'Connor), 70 Spring Gardens, Manchester, 2.
 Paul, Robert Graham Masters; 1937, A.C.A.; (Graham Paul & Co), The Trading Estate, Bridgend, Glamorgan.

Admitted as Associates (In Practice)

Amsterdam, David, 14 Windsor Avenue, Edgware, Middlesex.
 Freeman, Norman, 27 Jeffreys Road, Stockwell, London, SW4.
 Horsman, Dennis Arthur Charles (H. R. Davison & Co), 47 Boutport Street, Barnstaple, Devon.
 Morgan, Amy Mary Emily, B.Sc.(ECON.), 7 Park Lane, Aberdare, Glamorgan.
 Newman, Theodore, (T. J. Newman & Co), 16 Blackstone Road, Cricklewood, London, NW2.
 Prashker, Stanley Lionel, (Stanley Prashker & Co), 3 The Grove, Edgware, Middlesex.

(Not in Practice)

Ainsworth, Allan, 4A Holborn Hill, Ormskirk, Lancashire.
 Alderdice, Keith, 'Briarsyde', Queens Road, Blackhill, Co. Durham.
 Allen, Patrick Guy, with Andw. W. Barr & Co, Abbott's Chambers, 202 Bishopsgate, London, EC2.
 Allen, Robert Norman, with Wykes & Co, 24 Friar Lane, Leicester.
 Alles, Joseph Neville, c/o J. D. McLaren & Co Ltd, 22 St Mary Axe, London, EC3.
 Antoine, Bernard Nigel, with *Stephenson, Smart & Co, Swinton House, 324 Gray's Inn Road, London, WC1.
 Aungiers, Brian Piers, with Bourner, Bullock, Andrew & Co, Bush Lane House, Cannon Street, London, EC4.
 Austin, Michael Hayman, with Leslie B. Prince, Simon & Co, Palmerston House, Bishopsgate, London, EC2.
 Badrock, Stephen, with Harper, Pilling & Co, 25 Acresfield, Bolton.
 Bagshawe, Nicholas Thomas, M.A., with Sydenham, Snowden, Nicholson & Co, 27 Martin Lane, Cannon Street, London, EC4.
 Bainbridge, David Tarn, B.COM., with *Heslop & Son, 39 Priestgate, Darlington.
 Barragan, Francis Anthony, with McGillivray, Lowe & Co, 130 Mount Street, Berkeley Square, London, W1.
 Barrett, Horace, with Thornton & Thornton, 8 King Edward Street, Oxford.
 Bartlett, Ronald William, 82 Loughborough Park, Brixton, London, SW9.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Baxter, Peter, 63 Southcote Lane, Reading.
 Beatty, Neville Lancaster, with J. Noel Paul & Co, 35 Galgate, Barnard Castle, Co. Durham.
 Bery, Brij Lal, B.COM., 112-116 Lexham Gardens, London, W8.
 Bevins, Edward Robert, with Sheard, Vickers & Winder, 34 Castle Street, Liverpool, 2.
 Black, John Robert Couper, with R. J. Weston & Co, Probate House, 37 & 38 St Mary's Gate, Derby.
 Blackburn, Charles Stanley, with A. J. Downs & Co, Parliament House, Parliament Street, Hull.
 Blackburn, Michael John, with MacIntyre, Hudson & Co, Craig's Court House, 25 Whitehall, London, SW1.
 Blagg, Cyril Desmond, c/o C. R. Dodd, School Chambers, Albert Street, Eastwood, Nottingham.
 Bloor, John Charles Anthony Rawson, with W. S. Ogle & Co, 90 Gresham House, 24 Old Broad Street, London, EC2.
 Boyd, Geoffrey Bourke Montgomery, with Whitfield & Co, Martins Bank Chambers, Park Row, Leeds, 1.
 Brencley, Peter George Samuel, with W. T. Walton & Son, Marlow House, Lloyd's Avenue, London, EC3.
 Bristow, Richard Lawrence, B.COM., with Bristow, Sturge & Roberts, Swan Chambers, Great Swan Alley, Moorgate, London, EC2.
 Brittain, John Hugh, with Morris, Gregory & Co, 3 York Street, Manchester, 2.
 Brooks, James Derek, with *Sproull, Goddard & Co, 2 Gayton Road, Harrow, Middlesex.
 Brown, Ronald André Alfred, with Vincent & Goodrich, 22 Surrey Street, Strand, London, WC2.
 Bullin, John Edwin, 47 Grantchester Street, Newnham, Cambridge.
 Burton, Kenneth Holmes, with Wilson Bigg & Co, 80a Coleman Street, London, EC2.
 Burtwell, George Arthur, with Charles Comins & Co, 50 Cannon Street, London, EC4.
 Butters, Donald Herbert, with Smith & Garton, 2 Park Row, Leeds, 1.
 Cain, James Crookall, with W. H. Walker & Co, 42 Castle Street, Liverpool, 2.
 Capes, Geoffrey Hadden, with *Spain Brothers & Co, 1 Old Burlington Street, London, W1.
 Careless, Stanley James, 24 Graham Road, Wordsley, Stourbridge, Worcs.
 Carroll, Brian Joseph, 129 Claremont Road, Salford, 6, Lancashire.
 Catchpole, Norman Reginald Arthur, with Harrison, Son, Hill & Co, Charter House, 52 Gloucester Place, London, W1.
 Chalk, Victor Charles, with Amsdon, Cossart & Wells, 103 Cannon Street, London, EC4.
 Chaplin, Stanley, Frederick, with Wright & Westhead, 32A Darlington Street, Wolverhampton.
 Chapman, Walter, with Collinge & Halstead, Adelaide Chambers, 39 Adelaide Street, Blackpool.
 Clark, Thomas Arthur, with Harmood Banner, Lewis & Mounsey, 24 North John Street, Liverpool, 2.
 Clarke, Peter Noel, with James Worley & Sons, 16 Union Court, Old Broad Street, London, EC2.
 Cleere, Edward George, with W. E. Ratnett (W. E. Ratnett & Co), Commerce House, 6-8 Blagrove Street, Reading.
 Clowes, John, B.A.(COM.), with James Carter & Sons, 14 Wood Street, Bolton.
 Coker, Bryan Sydney, with R. Hall (Rowland Hall & Co), 44 Orsett Road, Grays, Essex.
 Coleman, John Lumsden, 17 Chester Road, Upper Holloway, London, N19.

- Coleman, Michael Leo, 18 Cissbury Road, Broadwater, Worthing.
- Collins, Ronald Michael, with Farrant, Stott & Golland, 2 Booth Street, Manchester, 2.
- Collins, William Sidney, with John Rowley & Co, 20 Friar Lane, Leicester.
- Condlyffe, John Desmond, with Folkes & Campbell, 15 & 17 Church Street, Stourbridge.
- Connell, John Challis Stewart, B.A., with *Peat, Marwick Mitchell & Co, Lombard House, Great Charles Street, Birmingham, 3.
- Cook, Dennis Stephen, 43 Highgrove Road, Dagenham, Essex.
- Cooper, Alan Vernon, with Watling & Partners, 40 Broad Street, Bristol, 1.
- Cooper-Parry, Robin George, with Cooper-Parry, Hall, Doughty & Co, 102 Friar Gate, Derby.
- Coren, Anthony, with Eric H. Ascher & Co, 152 Fenchurch Street, London, EC3.
- Corkish, William Douglas, with E. M. Owen & Co, 11 & 13 Victoria Street, Liverpool, 2.
- Corringham, Anthony Francis Millard, 59 Wick Hall, Hove, 2, Sussex.
- Cox, Peter Albert Charles, with Jones, Robathan, Thompson & Co, Westminster Chambers, 9 Victoria Street, Westminster, London, SW1.
- Crawford, Stanley Derek, with I. M. Morris (I. M. Morris & Co), Bow Chambers, 55 Cross Street, Manchester, 2.
- Cropper, Robert Henry, B.COM., with Appleyard, Bentley & Co, Lloyds Bank Chambers, Market Place, Dewsbury.
- Daly, Terence Patrick, with West & Drake, Sardinia House, Sardinia Street, Holborn, London, WC2.
- Daniels, Herbert Norman, 1 Guest Road, Cambridge.
- Davidson, Donald Leybourne Hugo, with John M. Winter & Sons, 39 St James's Street, London, SW1.
- Dearne, Herbert Ingram, with Hinde, Galt & Co, 20 High Row, Darlington.
- Desmond, James Terence Brian, with A. D. Bevan & Co, Central Chambers, 127 High Street, Guildford, Surrey.
- Dixon, Norman William, 8 Hillcrest Road, Great Crosby, Liverpool, 23.
- Dodwell, Benjamin Selwyn, with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
- Donert, Jack Burke, 56 Moresby Road, London, E5.
- Douthwaite, John Antony, with Pulleyn, Heselton & Co, Melrose House, St Sampson's Square, York.
- Eallett, Edward George, with *Cassleton Elliott & Co, 4-6 Throgmorton Avenue, London, EC2.
- Eastwood, Derek Arthur, 250 Liverpool Road South, Burscough, near Ormskirk.
- Eckersley, Dennis William, B.COM., with *Jones, Crewdson & Youatt, 7 Norfolk Street, Manchester, 2.
- Eckersley, Graham Robert Charles, B.A.(ECON.), with John Watson, Sons & Wheatcroft, Norfolk Chambers, 9 Norfolk Row, Sheffield, 1.
- Elliott, Denis Michael, with Edmonds & Co, Marlborough House, High Street, Ventnor, Isle of Wight.
- Ellis, Stuart, 21 St Cyres Road, Penarth, Glamorgan.
- Ellis, William Edwin Gordon, with Gordon Emery & Co, Smith's Bank Chambers, Market Place, Derby.
- Ellison, John Spencely, B.A., with Bryce Hanmer & Co, 1 & 3 Stanley Street, Liverpool, 1.
- Emsley, Alan Jeffrey, with Fawley Judge & Easton, 1 Parliament Street, Hull.
- Evans, Donald Eric, with Rogers, Bowler, Rushworth Smith & Co, 30 North John Street, Liverpool, 2.
- Ezekiel, David Richard Simon, with Moore, Stephens & Co, 30 Cornhill, London, EC3.
- Fairclough, Mark Barry, with Butler, Viney & Childs, 60 St Paul's Churchyard, London, EC4.
- Fergusson, Ronald Arthur, 'Ryntus', Castlecroft Lane, Wightwick, Wolverhampton.
- Foggett, John Barry, 'Incemoor', Beech Avenue, Crosby, Liverpool, 23.
- Foord, Derek Fergus Richard, with Horsfield & Smith, 81 Fountain Street, Manchester, 2.
- Frier, Bernard Reginald, with Charles Comins & Co, 50 Cannon Street, London, EC4.
- Frier, Ian James, with Wilding, Sladen & Co, 78 Buckingham Gate, Westminster, London, SW1.
- Frith, John Sourbuts, with J. Frith (J. Frith & Co), 89 Fountain Street, Manchester, 2.
- Fritz, Ryszard Mieczyslaw, with Smallfield, Fitzhugh, Tillett & Co, 24 Portland Place, London, W1.
- Gamble, Howard Charles, 26 Craneswater Park, Norwood Green, Southall, Middlesex.
- Geipel, Thomas Ashley, B.COM., with *C. Percy Barrowcliff & Co, 55 & 57 Albert Road, Middlesbrough.
- Gibbs, David Edgar, with Ernest James & Co, 11-13 Dowgate Hill, London, EC4.
- Gibbs, Norman, with Ham, Jackson & Brown, Albion Chambers, Small Street, Bristol, 1.
- Gibson, Robert Heward, with James Gibson & Sons, Union Bank Chambers, Royal Street, Barnsley.
- Gill, Cranstoun Bygott Harold, B.A., with Parkinson, Mather & Co, 10 Norfolk Street, Manchester, 2.
- Gilmour, Brian Stirling, with Withers & Clare, Martins Bank Buildings, 10 Norfolk Street, Manchester, 2.
- Gracey, Ruth Mary, 'Elmfield', Elmstead Lane, Bickley, Kent.
- Grant, Edward John, with T. W. Selbey, 6 Bedford Row, London, WC1.
- Grassan, David Reginald, with Bryden, Johnson & Co, 13 Southampton Place, High Holborn, London, WC1.
- Gray, Neville, B.COM., with T. B. Read, 71 Howard Street, North Shields, Northumberland.
- Green, Eric Thomas, with *Dearden, Gilliat & Co, Croxley House, 14 Lloyd Street, Albert Square, Manchester, 2.
- Greenfield, Robert Howard, 24 South Parade, Whitley Bay, Northumberland.
- Greenhough, James Arnold, with F. Arthur Pitt & Co, 14 John Dalton Street, Manchester, 2.
- Grindrod, Geoffrey Kenneth, B.A., c/o W. Grindrod, 53 Queen Street, Blackpool.
- Gusterson, Ronald George, with Burgis & Bullock, 11 & 13 Waterloo Place, Leamington Spa.
- Haddleton, Sidney John, with Thornton & Thornton, 8 King Edward Street, Oxford.
- Haines, Dennis George, 14 Higham Station Avenue, South Chingford, London, E4.
- Hall, Alan Frederick, with Pittman, Wood & Co, 7 & 8 Chandos Street, London, W1.
- Ham, Roy, c/o 45 Bruche Drive, Padgate, Warrington.
- Hamill, Gerald, with Cole, Dickin & Hills, 29 Victoria Street, Grimsby.
- Hamilton, George, with Reeves & Young, 8 Laurence Pountney Hill, Cannon Street, London, EC4.
- Hamilton, John Robertson, with W. Broad (Waller Broad & Co), 30 Fleet Street, London, EC4.
- Hanna, Hanna Youssif, with Beevers & Adgie, 26 Park Row, Leeds, 1.
- Hargreaves, Anthony Butler, with Haythornthwaite & Norris, 20 Richmond Terrace, Blackburn.
- Harland, Colin, with Wm. Harland & Son, 41 High Street, Stockton-on-Tees.
- Hawkins, John Wilson, 'Linton', Birkwood Road, Normanton, Yorkshire.
- Hayim, Derek Aaron, with J. Dix Lewis, Caesar, Duncan & Co, 112 & 114 Cannon Street, London, EC4.
- Hays, Donald, with Hereward, Scott, Davies & Co, 3 St Helen's Place, Bishopsgate, London, EC3.
- Hayward, Leslie, with Clay, Russell & Co, 24A Coton Road, Nuneaton.
- Hector, Gordon, with Halliday, Pearson & Co, 11 Spring Gardens, Manchester, 2.

- Hedges, Denis James, with Thornton & Thornton, 8 King Edward Street, Oxford.
- Herdman, Roderick Harling Leadam, 'Parkwall House', Longwell Green, near Bristol.
- Hewins, Raymond, with A. S. Hill, 3 The Quadrant, Warwick Road, Coventry.
- Hill, Edward Herbert, with *Mellors, Basden & Mellors, 1 King John's Chambers, Bridlesmith Gate, Nottingham.
- Hiscocks, William Bryan, with Frank Hiscocks & Co, 26 Exchange Street East, Liverpool, 2.
- Hobson, Oliver William, B.A., with *Hill, Vellacott & Co, Law Courts Chambers, 33 & 34 Chancery Lane, London, WC2.
- Hodder, Gordon John Walter, with Tyler & Wheatcroft, Central House, 75 New Street, Birmingham, 2.
- Holden, Ralph Burton, with Porter, Matthews & Marsden, 43 Preston New Road, Blackburn.
- Hollis, William, c/o Thomson McLintock & Co, 33 King William Street, London, EC4.
- Hosp, Peter Reginald, with Reads, Cocke & Watson, Leith House, 47 Gresham Street, London, EC2.
- Howarth, Geoffrey Garth, with Blease & Sons, 223 India Buildings, Water Street, Liverpool, 2.
- Howarth, Ronald, with *Jas. A. Hulme & Co, 18 Lloyd Street, Albert Square, Manchester, 2.
- Hufford, Horace Gordon, with *Spain Brothers & Co, 1 Old Burlington Street, London, W1.
- Hulley, Graham, 'Oakleigh', Carleton Park Avenue, Pontefract.
- Humphreys, Anthony Cecil James, with Harker, Holloway & Co, Regent House, 89 Kingsway, London, WC2.
- Hunt, Gillian, with Keller, Snow & Co, 54 Quarry Street, Guildford, Surrey.
- Hurst, Joseph Gerard, Junr., with Bretherton, Hurst & Co, Century Buildings, 31 North John Street, Liverpool, 2.
- Hutchings, Norman Frank, with Bagshaw & Co, 3 St Helen's Place, London, EC2.
- Irvine, Angus John Giffard, with Turquand, Youngs & Co, 19 Coleman Street, London, EC2.
- Isherwood, Michael Slater, with Mather, Kay & Hudson, 10 Acresfield, Bolton.
- Jarred, Roy William, with Luckin & Sheldrake, Waterloo Chambers, Chelmsford.
- Jee, John Frederic, with Wykes & Co, 24 Friar Lane, Leicester.
- Jenner, Michael Henley, with Richard Place & Co, 27 Cantelupe Road, East Grinstead, Sussex.
- Jennings, Brian Ernest, with Holmes & Bailey, Orchard Chambers, Church Street, Sheffield, 1.
- Jennings, Derek John, with Carter, Son & White, Craven House, 16 Northumberland Avenue, London, WC2.
- John, Albert, with *Friend James, Sinclair & Yarnell, 150 North Street, Brighton, 1.
- Johnson, Edward Herbert, with A. W. Lee, 21 Hamilton Square, Birkenhead.
- Johri, Tej Bahadur, with S. Trent & Co, 415 Green Lanes, London, N4.
- Jones, Kenneth Watts, with *Bowker, Orford & Co, 26 & 28 Hallam Street, Portland Place, London, W1.
- Jones, Peter Boam, with N. T. Afford & Co, National Provincial Bank Chambers, Nantwich, Cheshire.
- Jones, William Henry, with A. B. Snow, Wood & Co, Jubilee Chambers, Stafford Street, Hanley, Stoke-on-Trent.
- Jowitt, John Berry, with Messik, Arthur & Co, 32 Savile Row, Piccadilly, London, W1.
- Keeler, Anthony Edgar, with John Watson, Sons & Wheatcroft, Norfolk Chambers, 9 Norfolk Row, Sheffield, 1.
- Khanha, Subash Chandra, B.COM., with *Roth, Manby & Co, 6 Vigo Street, London, W1.
- Kilpatrick, James Ian, M.A., 20 Knowle Park Avenue, Staines, Middlesex.
- Kirby, Peter Samuel, with Wilsor, Turnbull & Co, 33 Lawrence Lane, London, EC2.
- Kirk, Ronald, with Hodgson, Harris & Co, Bank Chambers, Parliament Street, Hull.
- Knight, John Leighton, B.A.(COM.), with *Deloitte, Plender, Griffiths & Co, 5 London Wall Buildings, Finsbury Circus, London, EC2.
- Knowles, Robert Bernard, with Rawlinson, Greaves & Mitchell, Netherwood Chambers, 1A Manor Row, Bradford, 1.
- Koch, Edwin Miller, with *Booth, Anderson & Co, 63A Northbrook Street, Newbury, Berks.
- Langford, Philip Graham, with Edmonds & Co, Pearl Buildings, Commercial Road, Portsmouth.
- Langley, Kenneth James, with Tribe, Clarke, Painter, Darton & Co, 43 & 44 Broad Street Avenue, Blomfield Street, London, EC2.
- Langton, Horace Eric Cecil, with R. & D. Jeston Black & Co, 109 Kingsway, London, WC2.
- Laws, Stanley, 15 Blackwell Avenue, Newcastle upon Tyne, 6.
- Lebbell, David, with Oldham, Holland & Co, 63 & 64 New Broad Street, London, EC2.
- Ledingham, George Malcolm, No. 1 Flat, Hawksworth Lane, Guiseley, near Leeds.
- Lee, Arthur Philip, with Proctor & Proctor, 3 Grimshaw Street, Burnley.
- Lee, Michael George, with Chas. Hudson & Co, 19 Broad Court, Drury Lane, London, WC2.
- Lees, George Robert, M.A., 26 Park Crescent, London, W1.
- Leigh, Cyril Vivian, 9 Wendover Court, Finchley Road, London, NW2.
- Leigh, Kenneth, 72 Forest Road, Hinckley, Leicestershire.
- Leigh, Michael Paul Vernon, with Nevill, Hovey, Gardner & Co, 43 Church Road, Hove, 3.
- Lever, Stuart Mordecai, M.A., with Lever Bros. & Co, 1 Devonshire Square, Bishopsgate, London, EC2.
- Lewsey, William Stanley, with Philip Taylor & Son, Westminster Bank Chambers, St Nicholas Street, Scarborough.
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CONTENTS

Leading Articles	<i>Page</i>
Lower Bank Rate	353
The Finance Act, 1953 - VIII	354
Special Articles	
Management Accountancy: Knowledge of Production Sequences Essential by <i>Harry Dugdale, A.A.C.C.A., A.C.W.A., A.M.I.I.A.</i>	356
A Labour of Five Years: Opinions of an Articled Clerk on Training for the Profession by <i>J. H. Pascoe</i>	358
The Period of Articles: As Seen by a Principal by <i>T. A. Hamilton Baynes, M.A., F.C.A.</i>	359
Estates of Deceased Persons: Published Particulars by <i>Peter Whitworth</i>	360
Days from My Diary by <i>A Martyred Accountant</i>	361
Weekly Notes	362
Finance and Commerce	364
Correspondence	367
The Institute of Chartered Accountants of Scotland	
Special General Meeting	368
The Society of Incorporated Accountants and Auditors	
Residential Course at Cambridge	370
The Institute of Cost and Works Accountants	
Fourth Residential Summer School	372
The Chartered Accountant Students' Society of London	
News from the Committee	373
Notes and Notices	
Personal - Professional Notes - Obituary - Australian Accountant's Appointments - Chartered Accountant a Warden of a City Livery Company - The Chartered Accountant Students' Society of London - The Institute of Internal Auditors: London Chapter - Corporation of Secretaries - Liverpool Society of Chartered Accountants - The Manchester Chartered Accountants' Students' Society - Twenty-five Years Ago - Seventy-five Years Ago	374

LOWER BANK RATE

IN one sense, the reduction of the Bank rate to $3\frac{1}{2}$ per cent announced on September 17th, can be regarded as a technical adjustment. The re-discount rate for Treasury bills has, in fact, been $3\frac{1}{2}$ per cent since March 1952, when the Bank rate was raised to 4 per cent. Now both rates are the same and the effectiveness of future changes over the whole structure of money rates has been strengthened as a result. But many will see in the reduction and the method of its announcement strong evidence that this aspect of the Government's financial control has become firmly established.

A hint of some relaxation in the lending policy of banks must surely be implied in the move, particularly in view of the latest figures for aggregate bank advances which are the lowest since November 1950. Whilst private borrowers will receive no benefit from the change, bankers will no doubt make some slight adjustment to the interest rates charged to industry. This, coupled with the feeling of confidence engendered by the fall in the Bank rate and the corresponding rise in the price of securities, should encourage investment on the part of industrialists. To this extent the move is in continuation of the incentive plans of the Budget. If, however, the lower rate encourages greater investment in stocks, particularly of imported commodities, the reduction could have an adverse effect on the balance of payments. But so long as the prices of raw materials continue to fall there will be little point in building up stocks.

The change is expected to bring about a reduction in the rate of interest paid on bank deposits from 2 to $1\frac{3}{4}$ per cent. It is very unlikely that the rates of interest charged by building societies on mortgage or paid on deposits will be affected by so small a change in interest rates. Building societies alter their rates only at infrequent intervals and in response to appreciable changes in general rates of interest. The Government will save something in the order of £15 million a year by way of interest on short-term borrowings.

The reduction in the Bank rate may well have been decided upon without reference to the funding operations expected during the next few months, one of them very shortly.

Nevertheless, the rise in the price of securities and the easing of interest rates will doubtless facilitate these operations and in all probability reduce their cost somewhat. Clearly the signs and portents look reasonably satisfactory for the next few months at least, and 1953 should prove to be the first 'odd year' since 1945 without a balance of payments crisis.

THE FINANCE ACT, 1953—VIII

Section 22: Spreading of Copyright Royalties etc.

SECTION 471 of the Income Tax Act, 1952, provides relief for the author, or joint author, of a literary, dramatic, musical or artistic work. It applies only to a lump-sum payment, including an advance on account of royalties which is not returnable. Section 22 of the Finance Act, 1953, extends the relief to royalties or other periodical payments receivable within two years after the first publication. 'First publication' means the first occasion on which the work or a reproduction of it is published, performed or exhibited (Section 22 (3)). If the benefit of the section is claimed, it must be applied to *all* royalties and periodical sums receivable in the two years. The claim itself may be made at any time up to April 5th following the expiry of three years from first publication (Section 22 (2)).

Relief under Section 471 consists in spreading the payments backwards, whereby the author is put into a more favourable position in relation to sur-tax and personal allowances. If he was engaged for between one and two years on the work, the spread extends over two years, if he was engaged on it for more than two years, the spread extends over three years. In view of the nature of the relief, Section 22 is necessarily to some extent retrospective. It applies to payments falling to be included in computing profits for 1953-54 or subsequent years. Spreading such payments back, of course, increases the liability for earlier years and accordingly the section gives authority to make additional assessments for those earlier years (Section 22 (4)).

Section 23: Compulsory Slaughter and the 'Herd Basis'

Section 23 is intended to benefit a person who keeps a production herd in the course of a trade and who has been forced to slaughter a substantial part of it under the law relating to diseases of animals. It gives him an extended time in which to elect for the 'herd basis' for the purpose of computing his tax liability. This basis is set out in the Income Tax Act, 1952, Twentieth Schedule, paragraph 3, and provides, briefly speaking, for the treatment of the herd as a capital asset instead of trading stock.

If compensation is received for the slaughter of trading stock, it has to be brought in in full as a revenue receipt, whereas it is otherwise if a herd basis election is in force. Such an election had in general to be made within twelve months after the first year of assessment after 1946-47 for which the taxpayer was assessable under Case I of Schedule D in respect of the trade (Twentieth Schedule (paragraph 2 (3))). A farmer or other trader may have decided not to make the election because he had no intention of disposing of the herd for cash. The loss of his herd by compulsory slaughter as a result of, e.g. foot and mouth disease in the case of cattle, followed by the receipt of a large amount of taxable compensation, may upset his calculations. Section 23 (1) now gives him a further opportunity to claim the herd basis where that happens.

He must make the election under Section 23 within twelve months after the end of the first year of assessment for which the tax chargeable on him falls to be computed by reference to the facts of a period in which the compensation is 'relevant' (Section 23 (2)). The compensation is 'relevant' if it falls (or would fall but for the election) to be taken into account as a trading receipt of that period (Section 21 (4)). Thus, if the compensation is receivable in his accounting year ended April 30th, 1953, and the preceding year basis applies, he must elect by April 5th, 1956, and that election will affect the assessment years 1954-55 *et seq.* (Section 23 (3)). However, if 1954-55 happens to be the second year of assessment (the business having begun in 1953-54) and a notice is given under the Income Tax Act, 1952, Section 129 (2), the election may be made at any time before the giving of the notice (Section 23 (2)). The latest time for such a notice would be April 5th, 1957, i.e. two years after the assessment, so that in effect there is an extension by one year, where the trader elects to be assessed on actual profit for the second and third years of assessment.

If the trader makes a loss claim under the Income Tax Act, 1952, Section 341, for a year earlier than the first assessment year for which the herd basis election operates, and the compensation, if treated as a receipt, would affect

the amount of the loss, the herd basis is to apply for the purposes of the loss claim (Section 23 (3) (proviso)). Thus, in the example given above, if the taxpayer claimed loss relief for 1953-54 it would be computed by reference to the actual loss of the year, arrived at by apportionment. Consequently, compensation receivable in the year ended April 30th, 1953, if treated as a trading receipt, would enter into the computation. Accordingly, the election for the herd basis would apply to 1953-54 as well as to subsequent years, but it would not affect the 1953-54 *assessment*.

In the normal way Section 23 could only apply to 1953-54 and subsequent years. Section 23 (6) gives it retrospective effect, however, namely, to 1951-52 in the case of assessments and to 1950-51 in the case of loss relief. Of course the time limits for election laid down by Section 23 (2) may already have expired for pre-1953-54 years and, accordingly, Section 23 (6) permits the making of the election for past years at any time up to April 5th, 1954.

Section 23 speaks of 'farmers' in relation to taxpayers, and of 'animals' in relation to production herds, and of course the main beneficiaries of the section will be farmers whose dairy herds have had to be destroyed because of foot and mouth disease. However, the section is not confined to farmers but extends to all persons whose trade, broadly speaking, involves the keeping of living creatures for the purpose of turning their produce to account (e.g. bees for honey). This extended application is secured by the provision in Section 21 (5) that the preceding four subsections are to be construed as if they were contained in the Income Tax Act, 1952, Twentieth Schedule, which schedule provides for a much wider application than is implied in the words 'farmers' and 'animals'.

Section 24: Sums Applied Abroad in Repaying Loans

Section 24 closes a loophole available to persons assessable to income-tax on the remittance basis in respect of foreign income under Case IV or Case V of Schedule D. The loophole consists substantially of having accounts with a bank which has branches both in this country and abroad. The United Kingdom branch makes money available to the taxpayer by means of an overdraft. The overdraft is then transferred to

an account of the same taxpayer at the foreign branch. Finally, the overdraft is discharged out of the foreign income. A series of cases culminating with *C.I.R. v. Gordon* ([1952] 31 A.T.C. 165; 33 T.C. 234) had established the efficacy of this device.

Scope of Section 24

Section 24 applies only to persons ordinarily resident in the United Kingdom, and this considerably limits its scope.

Income under Case IV, i.e. from securities abroad, is normally assessed on the arising basis. It is assessed on the remittance basis only in relation to the following categories of taxpayers:

- (a) persons not domiciled in the United Kingdom; and
- (b) British subjects and citizens of the Republic of Ireland who are not ordinarily resident in the United Kingdom (Income Tax Act, 1952, Section 132 (2)).

It follows that as far as Case IV is concerned Section 24 applies only to the case of a person within (a) who is also ordinarily resident in the United Kingdom.

The same rules apply to all kinds of income under Case V other than income from trades, professions, offices, employments and pensions, i.e. broadly speaking, other than earned income.

For earned income the remittance basis applies whatever the status of the recipient. He must, of course, be resident for the year of assessment or he could not be chargeable at all. It follows that in relation to foreign earned income, Section 24 applies wherever the recipient is ordinarily resident in the United Kingdom and it is to this income that the section will mainly apply.

For Case IV, liability on the remittance basis extends to the full amount of the sums received in the United Kingdom (Income Tax Act, 1952, Section 132 (3) (a)). For Case V it extends to the full amount of the 'actual' sums received in the United Kingdom 'from remittances payable in the United Kingdom'. For Case V it also extends to the actual sums received in the United Kingdom

'from property imported, or from money or value arising from property not imported, or from money or value so received on credit or on account in respect of any such remittances, property, money or value brought or to be brought into the United Kingdom'. (Section 132 (3) (b).)

(To be continued.)

MANAGEMENT ACCOUNTANCY

KNOWLEDGE OF PRODUCTION SEQUENCES ESSENTIAL

by HARRY DUGDALE, A.A.C.C.A., A.C.W.A. A.M.I.I.A.

NO management accounting system worthy of the name can, it is suggested, be devised and installed except against a sound background knowledge of the daily organizational sequences which are the life-blood of the factory's activity. In exemplification of this point, it may be useful to consider briefly the 'know-how' requisite for the installation of standard costs and flexible budgets. By so doing it is hoped to show how the industrial accountant becomes thoroughly acquainted with manufacturing procedures and their attendant problems in his particular company.

The Sales Budget

Production must, in the end-term, emanate from sales. The sales budget is, therefore, a logical starting point of the installation procedure. While the preparation of this budget is not the accountant's responsibility he must be able to criticize it and to establish finally its fundamental achievability. It is not unknown to accountants experienced in the installation of management accounting methods for the first draft of the sales budget to be gloriously optimistic. Such a fact is evidenced by a careful analysis of sales, under product names and in geographical classifications, in recent years. Comparison of these analyses with the first draft of the sales budget will tend to reveal where the latter is non-factual.

The importance of an achievable sales budget – one, that is, which will keep the marketing section on its toes while yet being in line with past achievement and related to production capacity – is paramount in that all the remaining budgets stem from it. Even at this early stage the crucial importance of volume is making its presence felt. Thus, while the control of labour and material costs may be accomplished to a considerable degree by the use of predetermined standards, the adverse volume variance creates a problem not readily solved, especially where the investment in fixed plant is large. Where the sales budget, moreover, postulates an annual turnover which, in contradistinction to procedure in past years, is found to necessitate the organizing of production on a shift basis, the closest investigation must be made into the relative economics of several means whereby the ad-

ditional output may be gained. For example, what will be the additional cost involved by night work? Or, conversely, what additional plant facilities will ensure the extra production being obtained on a day-work basis? Again, will a modicum of overtime, coupled with a reduced provision of additional plant facilities, achieve the object?

Production Considerations

In circumstances where double-shift working of the factory is envisaged, the rate of recovery of fixed overhead will be enhanced, thus tending toward the creation of a favourable volume variance; but what other factors might offset this? In the matter of adding to existing plant facilities an obvious danger is the creation of an additional block of fixed overhead which is the possible progenitor of future idle capacity. Hence, a careful appraisal must be made to ensure that no alternative schemes capable of ensuring more economic costs are overlooked. In this the management accountant plays an important part: the problem is not one solely for the production engineer. Thus early is the accountant brought into contact with production problems – in other words, with the 'shop floor'.

The Production Budget

Establishing the production budget is a procedure which is aided by an intimate knowledge of the relevant process-cycles. The sales demand is linked to the production budget by the factors of opening and closing stocks and seasonal requirements. Hence the question of what quantities of finished goods should be held in stock is, in turn, related to production-cycle-time. Thus the management accountant is brought back sharply to 'shop-floor' matters, in that a knowledge of production-cycle-time (data made available from work-and-process studies) is invaluable in deciding the safe minimum of finished goods stock.

During the course of installing standard costs and flexible budgets, there is an early necessity to formulate the specific 'cost-centres' under which the costs will be analysed. In this matter it is sound practice for the accountant to spend several weeks on the 'shop floor', studying every

process in the production cycle and seeking the reasons underlying the current organization of the factory. He should question the men on the job; the shop foreman; the works manager; and, in some cases, he will obtain a variety of answers to his questions!

It would be unfair, of course, for the management to place on the accountant's shoulders the whole burden of criticizing production methods if there were a trained production engineer available for the task. But, in the opinion of the present writer, the necessity remains for the management accountant to obtain the broad view of the consecutive processes involved in the manufacture of each product. This knowledge will tend to ensure that the demarcation of cost-centres finally adopted is one resulting in like operations being grouped (within each specific department), thus creating an effective analysis of processes which at the same time will permit of the introduction of responsibility budgeting.

Cost-centres should be kept at a minimum, thus reducing the work of analysing actual expenditures.

'Cost-centre' Incidence

This knowledge of the production sequences is of equal value during the operation of the management accounting system, when variances which arise will require to be explained in terms of cost-centre incidence. The accountant can provide useful data in this respect by analysing the cost-centre activity in terms of machine-hours in addition to revealing the sterling cost of volume variance. Normal plant-hours, on which the cost-centre rates may have been calculated, can be then compared with actual plant-hours, revealing the degree of capacity usage in terms of time. Additionally, the standard hours earned by the employees will likewise be compared with the anticipated standard hours involved in the production budget.

Labour Considerations

His acquaintance with the 'shop floor' results in the management accountant becoming familiar with every operation for which a standard labour cost has been established and he should be able to satisfy himself that the labour mixture in any cost-centre (i.e. male and female employees and age groups) is economic. In the small company it is often a particularly hard task to reduce the labour force below an existing level unless the factor of making labour inter-departmentally mobile is appreciated, and advantage taken of

it. Another comparison is that of actual process-hours with the total hours during which the labour force is actually in the factory. If such a comparison reveals a considerable disparity (i.e. process-hours less than available hours) the pertinent avenue of inquiry is as to the work being performed by the personnel in question during the period of plant idleness.

The accountant's growing familiarity with the 'shop floor' includes a personal acquaintance with the various departmental foremen and he can do much to ensure that the foremen are made capable of understanding the weekly summaries of labour and materials costs and the variance analyses prepared in respect thereof.

In the matter of materials, the accountant will find his factory knowledge aiding him in such problems as the formulation of levels of stock-holding, the correct appreciation of the incidence of production loss and of the responsible casual factors. Where no purchase budget has been formerly in operation, the purchasing manager may really need constructive assistance when establishing data as to required purchase quantities during the coming financial year. These quantities must be related to the production budget and translated therefrom into terms of individual commodities through the medium of product materials' specifications.

Finally, in this somewhat brief appraisal of the management accountant's acquaintance with organization on the 'shop floor', there is the use of such knowledge as an aid to the effective formulation of budgets. If the budgets are to be built up on the desirable basis of executive responsibility, those imprecise charges of the semi-variable category (and, for that matter, the variable charges which are common to several products and thus not capable of being specifically allocated) should be well known to the accountant. He will be enabled thereby to formulate each budget in such a manner that the flexible allowances set proper targets for the departmental managers. The allowances must suffice—but no more—to enable the departments to be run effectively and economically.

In framing budgets, therefore, the accountant is able to criticize intelligently the allowances requested by the departmental managers where his factory knowledge is such that he clearly understands why the allowances are needed, and where they are needed. Only a thorough appreciation of the factory routine ensures that the management accountant is adequately briefed in these matters.

A LABOUR OF FIVE YEARS

Opinions of an Articled Clerk on Training for the Profession

by J. H. PASCOE

FIVE years hard labour' would have been a not completely unfair description of the training of a chartered accountant: and to judge from what he is expected to know, the time is not too long nor the labour unreasonable. But it would be wrong to suppose that articled clerks feel cast down by this, although we do like it to be known that, as well as our principals, we are busy people.

Every articled clerk presumably finds the work of the profession basically interesting, even if there are dull moments, and I see no reason why the 'five years hard labour' should not be five happy years if things go as they should.

Office Work: The Articled Clerk's Preference

The job that suits an articled clerk best is that which is *nearly* too difficult for him. This may be a rather unpalatable fact for office managers since in these circumstances the job takes longer than usual and a senior's help is often needed before the work is finished. But if the clerk is made responsible for it from beginning to end, not only will his theoretical studies come alive, but knowledge he gains will be firmly fixed.

There is often a tendency to give work to an articled clerk merely because he has done it properly in the past: this is where the interests of the clerk and the office managers clash. The greater instructional value has gone when the job is no longer a problem to the clerk, being merely a routine: exactly when this point is reached varies with the complexity of the job. The articled clerk who is a rolling stone in his office may be a nuisance but he is at least an interested nuisance.

Relations with Principals

Many articled clerks that I have met seem to have a very poor relationship with their principals and in some cases no relationship at all. There is a common belief that signing a paper which binds one as clerk to the other is all that is required in setting the contract on a proper footing and neither party takes the trouble to sift the qualities and peculiarities of the other.

Many clerks, for reasons of timidity or because of a mistaken idea of respect, keep away from their principals as much as possible: these principals seem content with this state of affairs.

If, within a few months of starting articles, the clerk can be given a job which brings him into fairly frequent contact with his principal, a very sound relationship, based on knowledge of the other party, should be established; this would be of real benefit to the clerk.

It seems to me vital that every clerk should have easy access to his principal or the partner taking permanent responsibility for him during articles (my references to principals are also intended to include the latter arrangement) and it is up to the clerk to make use of this. In normal circumstances, no principal has more than two articled clerks and it ought to be possible for him to take a close interest in their activities. It can be a great help to the clerk, for example when the principal takes a real interest in his private studies, and if that interest becomes embarrassing to the clerk, it is a sure sign that it is very effective!

Once the initial difficulty of making the acquaintance of his principal is over these contacts are greatly valued by the articled clerk.

Students' Societies

As principals pay the subscription of their articled clerks to chartered accountants students' societies, it is a surprising thing that they do not all press their clerks to take full advantage of the facilities provided. There is a tendency among students to confine their work outside the office to absorbing pre-digested information from examination note-books: the opportunities for obtaining a broader knowledge of professional matters and of making friends in the profession are often neglected. I feel sure that if principals were to find out what facilities are provided they would realize the value of the activities arranged by students' societies and encourage their clerks to take part.

Conclusions

Although we are fully aware of the need for personal enterprise in making the best use of our time as articled clerks, we greatly value the active help of our principals in providing the right background to our efforts. A good relationship with the principal who acts as guide rather than employer and a full use of students' society facilities should result in five strenuous years being well spent.

THE PERIOD OF ARTICLES AS SEEN BY A PRINCIPAL

by T. A. HAMILTON BAYNES, M.A., F.C.A.

THE description "chartered accountant" has long been a hall-mark of professional integrity and ability. . . . On each new member rests the responsibility of maintaining and enhancing the prestige already won.¹

Is it possible that the new arrival, the gauche and rather shy prospective articled clerk, is one day to become a new member with such responsibility? Moreover, does it seem improbable that the principal will be able conscientiously to certify, in due course, that he considers the clerk a fit and proper person to be admitted an associate of the Institute?

'Through the Mill'

The principal has one great advantage, often overlooked by his clerk: he has been through the mill himself; he knows all the periods of boredom, the anxieties of examinations, the pleasures of achievement. A principal may have to remain to some extent in the background, receiving reports from his managers and chief assistants on the progress of his clerks. But of course he must not be unapproachable. It is unfortunate that so often the pupil is reluctant to approach someone whom he regards as a cross between his grandfather and his late headmaster. Yet in fact the principal is often as diffident as his pupil and if approached on some point of difficulty is secretly pleased.

It is all to the good that in this post-war world relationship between principal and clerk is on a sounder footing. A principal was mildly surprised but gratified when his articled clerk telephoned on a Friday night from Cowes saying that he had been let down and could his principal come and crew for him tomorrow.

The Principal's Part in Training

What should the principal do with regard to training? Clearly, the clerk must find his own feet; he must be given the opportunity of working in different conditions, with a large staff on the audits of larger companies, with a small staff on incomplete records, and, as soon as possible, with responsibilities of his own.

But is that all? It is significant, and unfortunate, that no articled clerk considers the possibility

of passing the Institute examinations without taking a correspondence course. One result is that the principal tends to leave the theoretical training to the coaches.

The examinations are difficult; it is proper that they should be. But every generation thinks that the previous generation had an easy time. While the examinations are not competitive, the percentage of passes has never varied greatly, so one must assume that it has never been easy to reach the required standard. No principal likes his clerks to fail and it is a proud office that can boast of a high standard of passes. A photograph of a historic wagonette outing hangs in the corridor of the office of a Midland firm as an inspiration to the articled clerks of today. The occasion was the gaining of first place in both Intermediate and Final examinations in June 1898.

Benefits of Communal Activities

There is, however, more to becoming a chartered accountant than passing examinations, and a principal should see that his clerk plays his part in the affairs of the students' society. Attending lectures and joining in debates, visiting the works of local companies and turning out for the rugger team, are not only valuable in themselves but help the clerk to appreciate the benefits of communal activities.

If there is criticism of the articled clerk of today it is probably that he lacks personality, that his knowledge of the world of affairs is small, and his interest less. This must be remedied and the principal should help. It may be that too few principals have the prospective clerk long enough on probation before entering into articles. What is required? Let the Institute's *Handbook* reply:

'Patience and concentration are necessary in dealing with both routine work and involved financial transactions. Powers of observation and deduction, as well as quickness in grasping facts, are particularly valuable. . . . Readiness and ability to accept responsibility and to act on his own initiative are vital. . . .'

If the high regard for the profession is to be maintained, the articled clerk of today must be trained with this in view. Let us see to it that our standards are upheld by the next generation.

¹ *Members' Handbook*, The Institute of Chartered Accountants in England and Wales, page 9.

ESTATES OF DECEASED PERSONS PUBLISHED PARTICULARS

by PETER WHITWORTH

FOR perhaps most people the reports in the daily Press of deceased persons' estates are as much mystifying as informative. The published figure of estate duty paid often bears no apparent relation either to the 'gross estate' or to the 'net personalty', nor is it generally known why these particular figures appear.

Estate duty is the descendant of a fixed stamp duty imposed in 1694 on probates of will and letters of administration. In 1815 this stamp duty became an *ad valorem* duty on personal estate and was known as 'probate duty' or 'administration duty'. The amount on which the stamp duty had been paid would appear from the stamp, as it does now on conveyances and mortgages. The duty was confined to personal estate because originally probates of will and letters of administration did not extend to real property left by the deceased, which devolved automatically on the heir. The scale of probate duties was altered in 1880 and again in 1881. In respect of deaths occurring after August 1st, 1894, probate duties were replaced by the modern estate duty which is still technically a stamp duty.

Even before 1894 the probate duty stamp had been switched from the probate (or letters of administration) to the Inland Revenue affidavit. This contains an inventory of the estate and has to be filed (and the duty paid) before the grant of probate or administration can be obtained. The change was introduced by the Customs and Inland Revenue Act, 1881. Instead of bearing a stamp to show that the duty had been paid, the probate or letters of administration were now to have a certificate saying that the affidavit had been filed and was duly stamped and showing the 'gross value of the estate and effects'. The same Act allowed for the deduction of debts from this gross value for duty purposes but there was no provision for showing the amount of the debts on the certificate. There was, of course, no provision for any publicity for the affidavit itself.

When estate duty replaced probate duty the old procedure was in substance retained. However, Section 8 (17) of the Finance Act, 1894, provided that the form of certificate might be varied by rule of Court. Soon after, the following rule was made in the Principle Probate Registry.

'106. The certificate required to be given by

the proper officer of the Court under Section 30 of the Customs and Inland Revenue Act, 1881, shall, for the purposes of the Finance Act, 1894, and subject to any necessary variations and modifications, which the officer of the Court is hereby authorized at his discretion to make, be in the form following:

"And it is hereby certified that an affidavit for Inland Revenue has been delivered, wherein it is shown that the gross value of the personal estate of the said deceased within the United Kingdom (exclusive of what the deceased may have been possessed of or entitled to as a trustee and not beneficially) amounts to £ , and that it appears by a receipt signed by an Inland Revenue officer on the said affidavit that £ for estate duty and interest thereon has been paid, the duty being charged at the rate of £ per cent."

For deaths after March 1923, the wording of the certificate was altered to show the gross estate in Great Britain instead of the gross personal estate in the United Kingdom, but the rule itself retains its original wording.

Copies of the grant of probate or letters of administration containing the above certificate, and of the deceased's will, if any, are open to public inspection and therefore available for publication.

The gross estate shown in the certificate will not include gifts *inter vivos* or property in which the deceased had a life interest nor any deduction for debts. The net personal estate is reduced by the deductible debts, but real estate, gifts *inter vivos* and property in which the deceased had an interest ceasing on his death are not included. All these items affect the amount and rate of duty. Moreover, estate duty need only be paid on the personalty for the purpose of probate or grants of administration. Where the personalty includes a reversion, the duty on that may be deferred until the reversion falls in. It follows that in all but the simplest cases the figures to which publicity is normally confined give but a fragmentary picture.

In Scotland the Inland Revenue affidavit is replaced by an 'inventory' which remains attached to the will, bears the duty-paid stamp, and is open to public inspection, so that the necessity for a certificate of duty paid does not arise. This difference is purely historical.

DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

Wednesday 2nd – Confined to bed with slight temperature, misguided spouse fetching doctor. Remove pyjama-top for benefit of stethoscope. Doctor declares nothing wrong, day off from sums and taxes will do me good; jovially delivers most painful thwack on bare shoulder, and spends hour telling (with figures) of trouble his accountant is having with Inspector.

Friday 4th – Telephonic S.O.S. from F., working with junior at N.'s antique shop, which consists of showroom, small office and sort of 'phone-box for typist. After complete check, F. has alarming difference. Fault apparently lies with N.'s parrot, kept in office, which has joined enthusiastically in calling-over – a frequent 'right!' or '£325!' from bird has quite demoralized the two clerks. Has F. spoken to N.? I ask. He has, but N. has no solution. Am put through to N., who tells me that cage cannot stand in showroom owing to language difficulty; for same reason his wife will not have bird at home: moreover, result of covering cage is prolonged and eldritch snoring. Reply rather heatedly that if parrot is not removed or silenced when I ring back, job will remain unfinished. Later on, duly ask for N.'s number. On lifting receiver am greeted by, 'hullo, you blistering old asterisk!' followed by a psittacine squawk. 'Sorry, sir,' says the girl, 'that parrot's on the switchboard – and I've given notice.'

Tuesday 8th –irate letter from client rejoicing in name of Stone. He encloses envelope addressed to him which had contained belated demand for £327 12s 6d sur-tax. In his view, Post Office should somehow have avoided embellishment of his envelope with legend 'Blood Donors are still Urgently Needed'.

Thursday 10th – Learn with joy of C.A.s hockey victory over Bank of England by 4 – 3, wiping out last month's 5 – 1 defeat. Wonder idly whether the Old Lady is beginning to feel her age or whether reduced Bank rate of scoring is kindly hint to the very few C.A.s who have a bit of money to spare.

Monday 14th – On desk after lunch, letter typed by Miss J., which observes, *inter alia*, 'we shall be glad to supply any further inflammation. . . .' Bell brings Miss E.; on perusal of foregoing, she evinces no surprise. Appears that Miss J. has gone home with bad cold; but her previous ailments have not had such results, as I point out. Miss E. then tells all. Miss J. was learning to punt yesterday, and there was a rather public immersion. 'Two lovely men dived in after her,' adds Miss E. 'One of them was just like James Mason. She said it was marvellous.' And you

think this letter is the end-product?' I ask. 'Of course,' says Miss E., pityingly. 'But I suppose you wouldn't understand.' Suddenly feel about 80 years old.

Wednesday 16th – At board meeting to consider C. Ltd accounts. Secretary (who, like rest of board, is arrant coward) having ascertained through underground channels that old Mrs C. is now over seventy, gets me to explain to her the provisions of Section 185, Companies Act. She admits age, but is distinctly unamused. Later, after discussion of accounts, chairman says, 'any questions for auditor?' Usually there is blessed silence; but old Mrs C. has one for me this time, her first ever. Why, in spite of special Coronation expenditure, is there no corresponding increase in Royalties received?

Friday 18th – Conference with counsel. Solicitor and self amply compensated for sojourn in Q.C.'s waiting-room by interview with great man. Preliminary courtesies include information that he is weary of Bar and has in mind commercial appointment (amused to observe solicitor's note, 'no hurry for cheque'). Then, rapidly and fluently, he covers subject in hand, quoting about fifteen cases of which I have never heard and throwing in from time to time delightful anecdotes, many unrelated to the matter at issue and some quite unprintable. Conclude that as entertainment alone this is well worth his fee, particularly as I am not paying it. Outside his chambers suddenly realize that he has settled every point except the one on which I was really uncertain, and has skated over latter by supposing set of circumstances never likely to arise. Find solicitor has come to same conclusion but is quite happy. Reluctantly agree that the 'further opinion' must be a written one – would have enjoyed further conference.

Saturday 19th – Imminent return of two eldest to their respective boarding schools poses usual financial problems, to wit, settlement not only of main bills but also staggering totals for apparel. Notice that, while daughter (15) grows out of her things, son (13) gets his into scarecrow condition before this can happen. Result however, identical – more to pay. Then question of their future crops up again. Daughter now anxious to enter martyred father's profession. Contrariwise, son – rashly envisaged as partner of my old age – inexorably bent upon career of supersonic (perhaps space-ship) pilot. Little Bill (6) agog to become gypsy as from tomorrow. Their mother, appalled about each, states views in full. Own sympathies with Bill: given retirement and family-proof caravan, might I not blossom into celebrated diarist?

WEEKLY NOTES

Accountants' Courses in Cambridge

Accountants, were they discernible from the layman, would have been much in evidence in Cambridge during the past week; for both The Society of Incorporated Accountants and Auditors and The Institute of Cost and Works Accountants have been holding their annual residential courses there.

The Incorporated Accountants' course, the predominating subject of which was taxation, occupied two colleges—Gonville and Caius, and King's—while the summer school of the Cost and Works Accountants, with financial management as the theme of its deliberations, was accommodated at St Catharines. No less than nine papers and addresses were given at the Society's course, which in fact assembled on Thursday of last week and dispersed last Tuesday, and four papers were presented at the Cost and Works Accountants' summer school which commenced last Monday and disperses today. We were glad to receive copies of the papers of both courses, all of which are of great interest to the profession in general and certainly stimulated much valuable discussion and exchange of views among those who were present.

Summaries of most of the papers appear elsewhere.

Higher Export Prices

The large decline in both exports and imports during August has already been commented upon in these notes. It will be recalled that the improvement in the visible trade gap was due to the two groups declining, much the heavier fall being caused by lower imports.

One of the interesting features which comes out of August's official returns, however, is the slight improvement in the terms of trade for this country. Exports showed their first increase this year with a gain of one point, from 96 to 97, in the Board of Trade index. Behind this slight shift in export prices lies, among other factors, a recovery in the prices of textiles which have up to August recovered to the level in operation in September 1952.

Another point worthy of comment is the fact that the downward movement of imported raw materials' prices has flattened out. This may not indicate as yet a reversal of trend but there is no doubt that world commodity prices are beginning to harden slightly here and there. It has been the steady downward movement in world commodity prices which has helped to keep the deficit on visible account to manageable proportions so far this year.

All these movements are as yet small. But they nevertheless suggest that a new set of factors is building up which will shape the pattern of this country's visible trade figures from now on. The autumn has not, so far, brought any critical pressure on sterling (and this is the season when that pressure

is liable to be at its greatest), but it may be that we are faced with the prospect that fortuitous aids to our chronic balance of payments problem in the shape of falling import prices are coming to an end.

Sharp Drop in Bank Advances

The quarterly analysis of the British Bankers' Association shows a noticeable fall in the level of bank advances in the month up to the middle of August. At £1,788 million they were £76 million lower than at the close of the previous quarter and were in fact at their lowest point since November 1950. It is of interest, however, that steep as this decline has been, it was less so than the record drop which occurred at this time a year ago.

Contrary to the general trend, accommodation to the iron and steel industry continues to expand and loans to agriculture are at an all time peak.

As might be expected, the largest decline has been in the advances to the public utilities, but the reduction in these advances is less than half the sums received from calls on gas and electricity issues in the open-market and it seems that there has been new borrowing from this source. The second largest fall has been in accommodation to the retail trade, but a continued substantial fall is reflected in engineering. Advances for personal and professional purposes were down slightly. The quarterly figures thus tell the same story as the monthly returns of the clearing banks. The public sector of the economy is still being put under less restraint than the private sector.

Better Tinplate Outlook

Improving prospects in the South Wales tinplate industry are being substantiated by the announcement early this week by the Steel Company of Wales to restart production at nine of its hand-operated mills in the West Wales area on November 2nd. Last year, it will be recalled, the availability of maximum capacity in the industry following the opening of the Trostre works coincided with a decline in demand which reacted on the old hand-mills and a number of these were closed down.

In the later months of last year customers both at home and abroad were able to live on their stocks, but there are indications that this is no longer possible and those optimistic forecasts which were made earlier this year of a sudden improvement in trading at the beginning of the second half of this year are now being borne out. In the case of exports, it is thought that the annual rate of bookings is now running at 25 per cent above the 1952 rate, and this in its time was a post-war record. At the moment the industry expects to bring still more hand-mill capacity back into operation before long and to be able to keep it occupied for some

time. Indeed, if there is no depression in overseas markets, it is now expected that these old mills will be kept in production continuously until the new cold strip mill at Velindre near Swansea comes into operation in 1955.

B.O.A.C.'s Difficult Year

There was a sharp fall in the profit of the British Overseas Airways Corporation in the year which ended with March 31st last, but the Corporation can nevertheless take considerable credit for its performance in the first year without a Government grant. Profits declined from £1,233,722 in the previous year to £103,875 in the year to March 1953.

The main causes of the decline, according to the year's report, were rising costs, the effect on the services of the oil strike in the United States, the drop in the receipts from the carriage of mail and the curtailment of services owing to protracted fog. After bringing in certain special credits and allowing for interest on capital, the Corporation has been left with a deficit of £292,728 compared with a surplus of £274,999 last year.

These difficulties resulting in the deficit were hazards of operation. In addition, however, the Corporation has had other problems to deal with which have adversely affected costs. Paradoxically, these difficulties are part of the result of what was technically a most eventful year. Pre-operational development of the Comet services has been a heavy burden and there will be more of a like kind when the time comes to work out schedules for the Britannia. This is the price which the Corporation pays for running new long-distance British aircraft. The corporation is trying to obtain some relief from this burden by special aid from the Government.

One of the bright features of the year's operations was the Comet's ability to earn a profit right from the start of full commercial operation. It is also clear from the report that the Corporation plans to build up on the technical lead over its international rivals which is beginning to emerge with the Comet in full service (with Marks II and III coming along shortly) and the Britannia scheduled to join it early in 1955. The year's results cannot be described as very good but they are certainly encouraging.

Higher Australian National Income

In the last two years, the importance of the large Commonwealth markets to industry in this country has been underlined by the recession of 1952 when the fall in purchases by customers in those markets played an important part in the decline of activity in British industry. No abrupt drop in spending was more serious to this country than the one which developed in Australia when it was forced to reduce its imports as a means of defending its balance of payments position. The health of the Australian economy is of the greatest importance to this country.

In 1952-53 the Australian national income in-

creased by about 10 per cent on 1951-52 when the increase was only 4 per cent. Between these two periods also, the balance on external account changed from a deficit of £585 million to a surplus of £171 million. The main change in the component of the national income was the recovery in the proportion taken by farm incomes. Wages and salaries were 8 per cent higher on the year, but farm incomes increased by as much as 33 per cent.

So far as this country is concerned, the direct interest in the national income statistics of Australia is their bearing on the balance of payments, hence on Australia's capacity to absorb imports. In the year under review the change in the balance of payments position was of the order of about £700 million, and to this change lower imports and increased exports contributed in about equal proportions. The drastic import cuts of 1952 did an important job, just as they did in this country. But the recent relaxation in those cuts owes a good deal as well to Australia's better sales abroad of its merchandise - notably of its great export commodities.

Cost of Salesmanship

A survey of the terms and conditions of employment of commercial travellers has been carried out recently by the United Commercial Travellers' Association of Great Britain and Ireland, and the results are now published in booklet form.

The facts of the report, covering remuneration, expenses, holidays, sick pay and superannuation, were collected by means of detailed questionnaire forms, 8,548 of which were completed by travellers in various trades. The results are set out in percentage form under thirty trade headings, with a further miscellaneous section and a grand summary.

Average remuneration over all trades is £721 per annum but the individual trade averages vary from £534 to £991. The highest figures occur in the drapery and clothing trades, with catering and flour-milling and bakery at the other end of the scale.

In nearly all trades, more manufacturers' than wholesalers' travellers reach the highest salary and commission scales, and this brings the average remuneration in the manufacturers' section above that of wholesalers' men.

In 58.5 per cent of the total, remuneration is by salary and commission, 35 per cent by salary only and the remainder, 6.5 per cent, by commission only. Expenses are paid in 92.5 per cent of the cases, while provision for sick pay and superannuation is in operation for the majority.

The Association believes that although most commercial travellers do in fact work under satisfactory terms, there is a minority of employers who make a practice of employing as travellers men of very little experience, on terms and conditions which amount to exploitation, thus cutting selling costs in an unfair manner at the expense of their travellers and gaining an unfair advantage over the majority of employers.

FINANCE AND COMMERCE

Adjustment has now been made in the stock-market to the reduction in Bank rate from 4 to 3½ per cent. The next major event is expected to be the Treasury's long anticipated funding operation to be followed later next month by the first of the denationalized steel share issues.

Imperial Typewriter

The reprint this week gives the first accounts to be issued by The Imperial Typewriter Co Ltd as a public company. The conversion took place on January 14th last when the capital was stepped up to its present figure by a capitalization of reserves and the 10s shares were then placed on the market. The company itself dates from 1908 when it took over the business of the Moya Typewriter Company founded in 1902.

One would expect the typewriter business to be highly competitive and the directors, therefore, to have strong grounds (according to past ideas) for keeping turnover figures within the private ledger. Yet the board of this company has no hesitation in presenting its sales figures with its published accounts and, moreover, showing how the business fared in the home and export markets separately. To the statement of sales is added a split up of expenditure per £1 of sales, which in total for the first time exceeds the £1¼ million level.

The accounts and the accompanying photos are very neatly done in the original and our only regret is that we cannot quite produce the same effect in the reprint. The business has until now been centred in Leicester but before the end of this year production should be starting at the new Hull factory on which capital expenditure of £355,863 has been incurred. An estimated £270,000 needed to complete the project, will be found out of current resources.

The company very shortly will complete the first half of its current accounting period. May we suggest to the board that shortly after September 30th it should be possible to publish total sales and total expenditure figures for the six months.

Aspro Potential

Apparently, from page 13 of the annual publication of Aspro Ltd, we are not taking enough 'Aspro'. Sales of the tablet in Great Britain in 1952-53 were 106 per cent of the 1946-47 figure. 'If the *per capita* consumption reached were only half the *per capita* consumption in one of the best "Aspro" markets', the figure should be 148, and 148 is set down on page 13 as our 'Aspro Potential'.

To show what enormous possibilities there are for the business if its salesmen do their stuff, there is also shown the 'Aspro Potential' for markets in other countries. British East Africa has an 'Aspro

Potential' of 24,694 against the 1952-53 index of 1,235. The Iraq 'potential' is 4,731 against an actual 620 in 1952-53.

While the actual and potential sales of 'Aspro' are thus examined, however, and while the chairman, Mr Maurice A. Nicholas, talks round the subject in his statement - 'Home sales turnover in the year under review reached an all-time record' - nowhere is it stated what the sales turnover amounted to in firm and definite figures.

Beecham's accounts give sales - over £25 million last year - and also give figures for purchases of raw materials, salaries and wages, advertising, etc. Surely if Beechams can do this, Aspro can.

Unknown Quantity

One of the factors which investment statisticians are now taking into account is the extent to which available profits may be affected by the ending of the excess profits levy at the end of this year. Some companies have suffered very heavily from this impost and in the calculation of prospects which the investment experts make, allowances for the withdrawal of excess profits levy is part of the process.

The first step, however, is to know the excess profits levy the company has been bearing and here we notice the defect in this respect in the accounts of Williams and Williams Ltd, the metal window-frame makers.

In these accounts, profits tax and excess profits levy for the year to April 30th last, are stated in one amount of £81,987 compared with £53,415. After this item is provision for additional taxation and reserve for future income-tax 1954-55 calculated on the profits of the year, £218,922 against £119,700 and then foreign taxes £64,178 against £37,000. In sum total, taxation takes £365,087 against £210,115 or, as the chairman pointed out at the meeting, £1,000 for every day of the year.

But apparently he still did not disclose what profits tax and the levy took separately. It may be that such calculations of prospects will be upset by the introduction of some new form of company taxation. Meantime, however, excess profits levy is a non-recurring item and might well be shown for what it is.

Incidentally, this also presents another case where the chairman's statement should be given with the accounts.

Stock Losses

An indication of the effect of abnormal fluctuations in raw material prices is seen in the accounts to April 30th presented by Murex Ltd, metallurgists.

Group trading profits are down nearly a million, to £889,825. The circumstances are given in the directors' report which, incidentally, reads more like

a chairman's review than the usual abbreviated company report. There was, it is stated, a gross loss of about £250,000 incurred on turnover of stocks on falling markets. Taking this loss into consideration with the £500,000 profit which arose from stock appreciation in the previous year, approximately £750,000 of the total decrease in profits arose fortuitously from the rise and fall in market prices of certain raw materials.

Excluding this fortuitous profit, there was, it is stated, a fall of about 12½ per cent in normal trading profits in the year. The directors report that they fully expected the fall in prices and the stock losses. Against it, they built up a stock contingency reserve of £500,000 out of profits after taxation when prices were rising.

After taking into consideration the effect of taxation, they have this time withdrawn £120,000 net from the reserve, leaving £380,000 against any future depreciation in values.

These movements in the accounts are well explained but it would have been a useful addition if the extent of the fluctuations in prices and the materials affected had been shown.

Money Market

The first Treasury bill offer following the Bank rate reduction attracted applications of £340,630,000. The market, bidding at £99 9s 3d, obtained 76 per cent of requirements. The average discount rate was reduced to £2 3s 0·06d per cent against £2 7s 11·85d on the old rate basis. This week's offer is £270 million.

THE IMPERIAL TYPEWRITER COMPANY LIMITED Profit and Loss Account for the Year ended March 31st, 1953

Previous Year			
£	£	£	£
569,983	Trading Profit	635,049	
94,906	Depreciation	46,852	
11,115	Directors' Emoluments ..	11,844	
700	Audit Fee	750	
—	Expenses re Increase in Capital	2,267	
106,721		61,713	
463,262	Profit before Taxation ..	573,336	
	Less Taxation thereon (estimated):		
22,000	Excess Profits Levy	80,000	
60,000	Profits Tax	35,000	
197,185	Income Tax	263,270	
279,185		378,270	
—	Less Overprovision in previous years	29,691	
279,185		348,579	
184,077	Profit after Taxation	224,757	
73,539	Unappropriated Profit from previous year	80,946	
150,000		305,703	
26,670	Amount available for Allocation		
	General Reserve	60,000	
	Plant Replacement Reserve ..	50,000	
	Dividends less Tax:		
	Preference Shares — now redeemed	315	
	5 per cent Interim Dividend ..	21,000	
	Proposed Final Dividend of 7½ per cent	33,000	
176,670	Total Allocated	164,315	
£80,946	Unappropriated Profit to next Year	£141,388	

THE IMPERIAL TYPEWRITER COMPANY LIMITED Sales and Expenditure Information

SALES

Previous Year		
£	£	£
1,085,218	Home	1,146,783
504,459	Export	632,437
£1,589,677	Total	£1,779,220

EXPENDITURE PER £1 OF SALES

Previous Year		
s d	s d	s d
5 4	1. Suppliers Raw Materials, Goods and Services ..	5 3
7 8	2. Employees Wages, Salaries and Welfare Funds and Services	7 10
4	3. Shareholders Dividends (net after Tax)	7
3 2	4. Inland Revenue Company Taxation	3 5
4	Tax on Dividends	6
3 2	5. Company Depreciation, Renewals, Development and Retained Profits	2 5
20 0		20 0

THE IMPERIAL TYPEWRITER COMPANY LIMITED

Balance Sheet Notes

1. Share Capital

(a) The Share Capital prior to January 14th, 1953, consisted of:

	Authorized	Issued Fully Paid
	£	£
6 per cent Cumulative Redeemable Preference Shares of £1 each ..	20,000	20,000
Preferred Ordinary Shares of £1 each	100,000	100,000
Deferred Ordinary Shares of £1 each	480,000	420,000
	£600,000	£540,000

(b) On January 14th, 1953, the whole of the above were subdivided and converted into a single class of Ordinary Shares of 10s each; the authorized Share Capital was increased to £1,000,000 by the creation of 800,000 new Ordinary Shares of 10s each.

(c) On January 19th, 1953, 520,000 Ordinary Shares of 10s each were issued as fully paid by way of capitalization of reserves.

2. Capital Expenditure Commitments

At March 31st, 1953, the company had entered into contracts for Capital Expenditure which, after deducting amounts already provided for, amounted to £284,157 (1952, £363,298).

3. Statement Pursuant to the Companies Act, 1948

Nothing has been brought into these accounts for profits or losses of the subsidiary company, which has ceased to trade.

No annual Balance Sheets are prepared or submitted to audit.

THE IMPERIAL TYPEWRITER COMPANY LIMITED
Balance Sheet March 31st, 1953

[illegible]

Signed on behalf of the Board,

HOLLAND GODDARD
A. PATEMAN } Directors.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Balancing Charge Anomaly

SIR, - I have recently dealt with a case identical with that quoted by your correspondent 'R. H.' in his letter which appeared in your issue of September 12th. My experience was exactly the same as his and I do not think that any allowance can be obtained. The Inspector informed me that where a purchase and sale within the same accounting period take place at a time when the initial allowance is due, i.e. before April 6th, 1952, or after April 15th, 1953, a balancing allowance can be made to cover the loss on sale. I think it is only fair that the allowance should be granted at all times and I think there is scope here for a concession on the part of the Board of Inland Revenue. Yours faithfully,

Nottingham.

P. E. HALL.

A Profits Tax Peculiarity

SIR, - An unusual point was brought to my notice during the week. It was that, in certain circumstances, a greater profit may result in a smaller charge to profits tax.

Example:	£	£	s	d	£	£	s	d	£	£	s	d			
Adjusted profit	30,000				55,000				80,000						
Directors' remuneration	20,000				20,000				20,000						
	<u>50,000</u>				<u>75,000</u>				<u>100,000</u>						
Allowance for Directors' Remuneration (15 per cent)	7,500				11,250				15,000						
22½ per cent on	42,500	=	9,562	10	0	63,750	=	14,343	15	0	85,000	=	19,125	0	0
Net Distribution (Excess Remuneration)	<u>12,500</u>				<u>8,750</u>				<u>5,000</u>						
20 per cent non-distribution relief on	<u>£30,000</u>	=	6,000	0	0	<u>£55,000</u>	=	11,000	0	0	<u>£80,000</u>	=	16,000	0	0
Tax payable					<u>£3,562</u>	10	0		<u>£3,343</u>	15	0		<u>£3,125</u>	0	0

Yours faithfully,

London, SE25. MAURICE E. RICHARDS.

[Given a fixed amount of directors' remuneration in excess of the statutory maximum but below £15,000 and a flexible profit, a director-controlled company must benefit by $\frac{7}{8}$ per cent of every increase in profit which is not distributed. While each increase in profit attracts tax at $2\frac{1}{4}$ per cent, the deductible amount of remuneration is increased by 15 per cent of that increase of profit, and on that 15 per cent tax is saved at the rate of $22\frac{1}{2}$ per cent. Twenty-two and a half per cent of 15 per cent is $3\frac{3}{8}$ per cent, which exceeds $2\frac{1}{4}$ per cent by $\frac{7}{8}$ per cent. The sum can be expressed algebraically as follows:

Let the increase in profit	=	100x
Increased deduction for remuneration	=	15x
Tax thereon at $22\frac{1}{2}$ per cent	=	$3\frac{3}{8}x$
Tax payable on increased profit at $2\frac{1}{4}$ per cent	=	$2\frac{1}{4}x$
Net gain to taxpayer	=	$(3\frac{3}{8} - 2\frac{1}{4})x$
	=	$\frac{7}{8}x$

Thus, in the example given by our correspondent,

the decrease in liability amounting to £218 15s 0d (£3,562 10s 0d - £3,343 15s 0d) represents $\frac{7}{8}$ per cent of the increase in profit £25,000. - EDITOR.]

Auditing Tests

SIR, - The value of Mr Walker's admirable paper on 'Auditing tests' in your issue of August 22nd was, to my mind, diminished by his use of the out-moded Base 10 for his probability table. Mathematically, surely a base of 7, or in certain cases 12, is to be preferred, and a probability table based on $6\frac{2}{7}$ ths or $11\frac{1}{12}$ ths would have been of more value.

Yours faithfully,

ANTI-LOG.

SIR, - I suggest that the last sentence of the second paragraph on page 219 (August 22nd) is statistically unsound. It will be realized that the errors can appear at any stage in the examination of a sample and to examine 'until an error is found' will mean comparing the number of errors with the number

of correct items examined *before* the error instead of with the total number correct (examined before and after). The size of the sample must be fixed first and all the items examined; in the example given the conclusion drawn would be correct if only one more error had been found *by the time* a sample of 250 items had been examined. This is no doubt the meaning intended by the author but the original statement could mislead newcomers to statistical methods.

Mr Walker deserves our thanks for his article which provides reason for thoughtful review of present methods.

Yours faithfully,
STATISTICAL ASSISTANT.

[Mr K. W. Walker writes: I am not aware of any particular virtue in the levels of probability suggested by 'Anti-Log', but a table could, of course, be constructed to

give effect to them, if required. They approximate to 89.8 per cent and 91.6 per cent respectively and in practice would not give results differing appreciably from my 90 per cent table.

Regarding the second letter, my original statement appears capable of being mis-read and I would thank

'Statistical Assistant' for his letter setting out its meaning so much more clearly. I am sure he would agree, however, that testing until an error is found could be useful in certain circumstances, and is, in effect, the basis of the modern techniques of sequential sampling.]

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND SPECIAL GENERAL MEETING

One hundred and fifty-seven applicants were admitted to membership of The Institute of Chartered Accountants of Scotland at a special general meeting of the Institute, held in Glasgow on Friday last, September 18th. The chair was occupied by the President, Mr John L. Somerville, C.A., F.R.S.E., from whose address we give the following extracts:

PRESIDENT'S ADDRESS

Our gracious Queen has been much in the thoughts of all of us during this, her Coronation year. The Council accordingly felt confident that it was acting in accordance with your wishes in submitting a Loyal Address to Her Majesty from the Institute on the occasion of her Coronation. . . .

It was my privilege as your President to represent the Institute at the Coronation Service in Westminster Abbey and also, accompanied by my wife, at the National Service in St Giles. Both occasions left me with unforgettable memories.

Achievement of Arms

Our new Achievement of Arms granted by the Lord Lyon King of Arms is being brought into use. . . . The Achievement of Arms also appears on the new Presidential Badge which Mr R. G. Simpson, M.C., the first President of our united Institute, has presented for the use of his successors and which I am now proud to be wearing. The Institute is much indebted to Mr Simpson for his generosity.

Before I pass to other matters, I would refer to the deep regret with which the members of the Council learned of the death of their colleague, Mr C. G. Kennaway, of Aberdeen, on June 13th, 1953. His cheerful presence at our deliberations is greatly missed. To fill the vacancy on the Council thus created until the next annual general meeting, the Council has appointed Mr Thomson S. Aikman, of Aberdeen.

I also have to record with regret the deaths of twenty-five members of the Institute of which the Council has learned since the annual general meeting in March.

Opportunities for Meeting Together

The Council conceives that one of its most important functions is to provide opportunities for members of the Institute to meet together and, through formal and informal discussions, to exchange views on topics of professional interest and get to know their professional brethren better.

This year the usual gathering at Gleneagles in

connection with the Moore Cup was held on May 7th and 8th. It is only proper that as an Edinburgh man I should record with due humility that the cup was again won by the Glasgow area, but on that occasion the golf is, despite appearances, not the most important matter: what in my view is paramount is the opportunity one has of meeting old friends and making new ones amongst members of the profession from all parts of the United Kingdom. . . .

This year we broke new ground by holding our first summer school at St Andrews from July 3rd to 8th. One hundred and four members attended and the arrangements made by Professor Robert Browning and his Summer School Committee found general acceptance and earned high praise. I was much impressed by the enthusiasm with which the members attending applied themselves to the study of the papers and to the discussions of them, and resisted certain counter-attractions which were afforded at Carnoustie and by St Andrews itself. The Council felt that its decision to hold a summer school had been amply justified, and it is hoped to hold another summer school at St Andrews in September, 1954. Meanwhile, our thanks are due to Professor Browning and his committee, to the contributors of papers and to the discussion group leaders for all that they did towards the success of the first School.

The Institute's Centenary

Next year we are to celebrate our centenary, and a special committee under the chairmanship of Mr W. I. French, is hard at work planning the arrangements for three days of festivity from June 16th to 18th, 1954. As we are the oldest accountancy body in the world, the centenary is in some sense the centenary, not merely of our own organization, but of the accountancy profession, and it is the Council's aim that the occasion should be dealt with appropriately. . . .

Of more domestic concern, and certainly of much more immediate practical benefit to those taking part, are the discussions which are held at various centres under the auspices either of the Institute or of the Chartered Accountants Students' Societies in Edinburgh, Glasgow and Aberdeen. The work which the Students' Societies are doing, not only for apprentices but also for members, is beyond all praise, and it is the Council's policy to give those Societies all possible encouragement. Indeed I personally hope that the time will come when we also have Students' Societies in Dundee, Inverness and London respectively.

I should like to refer particularly to the Management Accounting Discussion Group and the Taxation Group which, during the past few years, have been held in Glasgow for members of the Institute. These groups are Institute – and not Students' Society – ventures, and I know that their sessions are well attended and lead to lively discussions which are of great interest. Members of the Institute in the area of the Glasgow Local Committee will soon be receiving a circular containing the syllabus for each group and all relevant particulars.

I would emphasize that although the circular is only being sent to members in the area of the Glasgow Local Committee it is open to any member of the Institute wherever he may be to join the groups and attend their sessions. Any member interested who is outwith the area of the Glasgow Local Committee should write to the Glasgow local secretary for full details.

I understand that the London Local Committee has organized some meetings on similar lines, although I believe on a somewhat smaller scale, and it may well be that in time other Local Committees will follow Glasgow's initiative in this matter. . . .

We are going on to consider whether there is anything that we can usefully do with regard to retirement benefits and provision for widows and dependants on an insurance basis. The Council has set up a special committee to go into this matter, but I must warn you that it is unlikely that the committee can make any real progress until the publication of the report of the Tucker Committee on retirement benefits.

Examination and Training of Apprentices

I should like to refer next to various matters affecting those seeking to become qualified for membership of the Institute.

In my view it is of fundamental importance to keep a constant eye upon our systems of training and examining those young men and women who desire to become qualified as members of our body, so that we may keep in the closest possible touch with developments in a profession which is still growing both in size and in the scope of the responsibilities which its members are called upon to undertake. The standing of our Scottish qualification has always been second to none, and so it should remain. Nevertheless, we must be on our guard against making entry so difficult that our Institute is deprived of the new blood without which it cannot continue to function, or so easy that the status of our members is in any way diminished.

The Council has set up a special committee on the examination and training of apprentices, and I should like to refer to the work of this committee.

the United Kingdom which provides tutorial classes for our examinations and at this point I would stress how grateful we all are to the members of the various classes committees, to the directors of studies and to the lecturers and tutors who do so much for our apprentices.

Memoranda of Evidence

In case, from what I have said, you should assume that membership of the Council is a sinecure, perhaps I had better touch briefly on some of the many other subjects which we have had to consider in recent months.

Every professional body seems constantly to be called upon to offer views to royal commissions, departmental committees and so forth.

We submitted a memorandum of evidence to the Gedge Committee on Shares of No Par Value and Mr John Dunlop and Mr James A. Walker, C.B.E., gave oral evidence before that committee in support of our memorandum.

We have been invited to submit to the Inland Revenue for consideration by the Chancellor of the Exchequer a memorandum on anomalies in the law relating to estate duty, with particular reference to Section 55 of the Finance Act, 1940. We also contemplate submitting evidence to the Sorn Committee on Rating in Scotland.

On many subjects we are collaborating closely with the other recognized accountancy bodies, and particularly with the English Institute. Some of the subjects with which we are thus dealing are the English Institute's Recommendation XV with regard to Accounting in Relation to Changes in the Purchasing Power of Money, and developments in the profession overseas. In recent months we have had to consider changes, or proposed changes, which will affect our members in South Africa, Australia, New Zealand, Ceylon and Malaya. In each instance we have had to do our best to protect the interests of our members in those countries – a matter of importance to a body like ours with nearly one-fifth of its membership overseas.

We have also continued to play our part along with representatives of the other recognized bodies in considering legislation and other parliamentary matters affecting the profession.

The Rules and Bye-laws Committee which the Council set up soon after the amalgamation is continuing its work, and I hope that by the time of the next annual general meeting various amendments to the rules will be put before you for consideration. Any amendments to the rules have to be approved by the Privy Council and although we are satisfied that various amendments to the rules would be desirable we have not been in any hurry to put them forward.

THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS RESIDENTIAL COURSE AT CAMBRIDGE

Last Tuesday saw the conclusion of this year's Incorporated Accountants' Residential Course, which, as announced in our issue of September 12th, was held at Gonville and Caius College and King's College, Cambridge. In all, nine papers and addresses were given during the five days' course – six of which are summarized below and that by Professor Sewell Bray on 'The nature and purpose of direct taxation' will be reproduced in our next issue.

Divine service, conducted by the Rev. E. W. Heaton, M.A., Dean and Fellow of Gonville and Caius College, was held on Sunday morning, and the guest-night dinner took place in King's College Hall on Monday evening, when Mr C. Percy Barrowcliff, F.S.A.A., President of the Society, and Mrs Barrowcliff presided; among the guests were:

Professor F. E. Adcock, O.B.E., F.B.A., M.A., LITT.D.; Mr F. Bower, C.B.E., M.A.; Viscount Caldecote, D.S.C.; Messrs Brooke Crutchley (*Printer of the University of Cambridge*); J. G. W. Davies, M.A. (*University of Cambridge Appointments Board*); D. du Pré (*Editor, 'The Accountant'*); Maurice Green (*Assistant Editor, 'The Times'*); K. P. Harrison, M.A. (*Steward of King's*); Rev. E. W. Heaton, M.A. (*Dean of Gonville and Caius College*); Mr J. W. Hope, C.P.A., and Mrs Hope; Professor R. F. Kahn, C.B.E., M.A.; Messrs D. Portway, M.A. (*Master of St Catharine's*); S. C. Roberts, M.A. (*Master of Pembroke*); Dr L. Rostas (*Department of Applied Economics*); Miss Small (*Steward of Caius*); Rev. William Telfer, D.D. (*Master of Selwyn*); Sir G. P. Thomson, M.A. (*Master of Corpus Christi*); Professor A. R. Todd, F.R.S.

The Structure of Companies in Relation to Taxation

In their paper on 'The structure of companies in relation to taxation', Mr H. Major Allen, Barrister-at-law and Mr W. G. A. Russell, F.S.A.A., pointed out that a company is taxed as a 'legal person' (not as an agent for its shareholders) and may arrange its affairs so as to cause the burden of taxation to rest as lightly as possible. The paper summarized the matters which should be kept in mind and covered: (1) capital structure; (2) controlling interest; (3) form of memorandum and articles; (4) groups of companies; (5) death duties; (6) assessments on opening and closing years; (7) capital profits and dividends; (8) bonus issues; (9) pension schemes; (10) stamp duty on reconstructions. When considering changes in capital structure, financial considerations should be weighed against taxation aspects e.g., debenture interest is not a 'distribution' for profits tax purposes. The authors dealt with various forms of 'control' and stressed the importance of the articles in this respect; also in regard to the distribution of capital profits, and the company's residence. The Finance Bill, 1953, introduced a novelty in the form of subvention payments, enabling the transfer of profits against losses between companies in the same group – group treatment for profits tax purposes was already covered by the Finance Act, 1937. The authors pointed out that in relation to death duties, power to obtain control may be decisive,

although that power may never in fact be exercised. Bonus issues can be of great value to private companies faced with the risk of future death duties.

Practical Aspects of Saving Estate Duty

Mr Geoffrey Tribe, Barrister-at-law, in a paper on 'Practical aspects of saving estate duty', stated that in his opinion, if a family man makes the right dispositions at the right time, the bill of estate duty which his family have to meet on his death is entirely under his control. In the first part of his paper Mr Tribe dealt with savings not dependent on five years' survival. (1) Gifts in consideration of marriage – in Mr Tribe's view marriages ought always to be made the occasion of a disposition; (2) 'Normal' gifts (Section 59 Finance (1909-10) Act, 1910) – this may even cover the gift of houses etc.; (3) Gifts not exceeding £500 – Mr Tribe considered that Section 33 (1) Finance Act, 1949, obviated the need for small legacies in wills; (4) Agricultural land (reduced rate of tax); (5) Purchase by life-tenant of remainder; (6) Bonus issue of shares – if shares are the subject of gifts *inter vivos* and subsequently a bonus issue is made the bonus shares do not count for estate duty purposes as part of the gift; (7) Nominated policies (saving from aggregation). The second part of the paper dealt with dispositions recommended when the client is not more than middle-aged and is reasonably healthy. The problem is how to deal with Sections 55 and 46 of Finance Act, 1940. The former can be immediately avoided by the sale of shares, but this may often increase the danger from Section 46, which cannot be avoided except by the passing of five years. In Mr Tribe's opinion the best advice to give to clients is that at the right period of life they should give up any idea of retaining control of private companies, and arrange for their family company to be controlled by their trustees. There is considerable scope regarding the type of settlement and the discretionary settlement has become increasingly popular. Mr Tribe recommended that the size of the group should be reasonably large.

The Finance Act, 1953

Mr D. O. Bailey, A.S.A.A., in his paper, 'The Finance Act, 1953,' stated that the most significant points of the Act are the continuance of the policy of the piecemeal introduction of recommendations of the Tucker Committee, and the first fruits of the work of the Royal Commission on the Taxation of Profits and Income. In his opinion the Act has in a number of ways improved the law relating to the calculation of tax liabilities. The paper reviewed: (a) changes in the rates of taxes and personal allowances; (b) amendments in respect of losses under Section 341, Income Tax Act, 1952; (c) the restoration of initial allowances, and the extension of industrial buildings allowance; (d) important new rules regarding partnership changes, which overcome the position arising from the case *Osler v. Hall & Co*; (e) the introduction of subvention

payments; (f) changes in the taxation of overseas income in respect of: (1) unremittable overseas profit; (2) remittance basis – arising from the *Hall v. Marians* case; (3) double taxation relief – capital allowances; (4) the removal of the limitations previously placed on unilateral relief; (g) spreading of copyright royalties; (h) a second opportunity for farmers to elect for the herd basis; (i) termination of the excess profits levy at December 31st, 1953, with permission for the taxpayer to apportion the results of a final overlapping period on an actual basis instead of on a time basis; (j) the use of refunds of excess profits tax, freed from check after July 31st, 1953; (k) miscellaneous matters.

Statutory and Non-statutory Reliefs

In a paper entitled 'Statutory and non-statutory reliefs', Mr J. R. Paramour, F.C.A., F.S.A.A., surveyed personal reliefs and others of more or less general application under Schedules A, B, D and E, of Income Tax Act, 1952. He commenced with personal reliefs; taxpayer's personal; children; housekeeper and dependant relative; earned income, old age and small income; life assurance; reduced rate; and dealt with a number of points of interest, e.g. geographical separation of husband and wife; the cases of *Dodworth v. Dale* (annulment of marriage) and *Yates v. Starkey* (payments to former wife in trust for children). Mr Paramour commented on the rather rigid system of personal reliefs, and hoped that some enterprising Chancellor may one day introduce a sliding scale related in some way to taxable income. He considered it inequitable that the same allowance for, say, keeping and educating a child should be given to a man earning £5,000 per annum as is given to a man earning £500 per annum. Mr Paramour then dealt with points relating to trusts; the *Pettit* rule regarding tax-free annuities; claims by non-residents; and charges on income. He then proceeded with Schedules A and B, and pointed out the necessity of preparing a maintenance claim in nearly every case of a property owner, under Schedule D, Mr Paramour mentioned the withdrawal of time limits on the carrying forward of losses effected by the 1952 Finance Act; also claims under the 'error or mistake' provisions; and stated that relief for expenditure on scientific research is a matter sometimes overlooked in practice. Regarding Schedule E, Mr Paramour commented on the antiquity of the basic rule regarding allowance of expenses.

The Organization of an Accountant's Office in the U.S.A.

A paper on 'The organization of an accountant's office in the U.S.A., with particular reference to taxation', was given by Mr J. William Hope, C.P.A., who commenced by briefly surveying the history of the establishment and the growth of the organized accountancy profession in the U.S.A., and described in outline the federal set-up for tax collection. The certified public accountant of the U.S.A., said Mr Hope, occupied a key position in the field of tax practice, and devoted a considerable part of his time to tax. There is no restrictive qualifying procedure for preparing or rendering tax returns, but no one is permitted to represent clients before the United States Treasury Department unless he has been admitted to practice. Mr Hope stated that extremists in the legal profession had strenuously opposed tax work being

undertaken by C.P.As., but there now existed a far greater degree of cordiality between the two professions, and both accept as a matter of principle that the lawyer should encourage his clients to consult a C.P.A. whenever accounting problems arise and vice versa.

Preparation of tax returns involved a declaration accepting a degree of responsibility for their accuracy and there is a controversy within the profession on the wisdom or propriety of adding disclaimers. Most returns must be filed by the fifteenth day of the third month following the close of the taxable year. Mr Hope stated that every public accountant must have a tax library – a minimum requirement being a loose-leaf service, revised annually, which is commercially available – and must allot a few hours each week to reading matter of current tax interest. The wise accountant said Mr Hope, plans his organization to give prompt and competent service and makes full use of reminder systems ('ticklers') prepared check-lists and the accumulation of data during the year in the client's tax file. Mr Hope mentioned the need of adequate filing facilities, continual checking on progress to avoid disruption of work, and the use of printed forms containing instructions to the taxpayers of due dates, signatures required etc.

Taxes and Inter-connected Companies

Mr Frank Bower, C.B.E. M.A. in his paper, 'Taxes and inter-connected companies', surveyed how far tax law has developed in the fiscal field in recognition of a new form of economic unit, namely a group of companies; and considered this may furnish a clue to the trend of future developments. Basically, said Mr Bower, each company is a separate taxable entity and is deemed to be economically and legally independent. Various terms have been introduced: 'connected'; 'inter-connected'; 'associated' and 'subsidiary' companies and 'a group of companies'. The essential factor for a business group is the ability to take concerted action by means of team-work but this idea is too intangible for tax legislation.

Mr Bower classified the statutory provisions of his subject-matter into: (1) 'preventive' provisions; (2) 'constructive' provisions. The former which are much more widespread and numerous are not subject to territorial restriction, and use voting control as the operative criterion. The 'constructive' class of provision, which is small and narrow in scope, is strictly limited to resident companies, and adopts as its criterion, ownership of the right to receive the equity profits. The trend is towards consolidation in order to avoid double taxation or in order to offset losses against profits at an earlier date.

Mr Bower classified four types of business association, compared the extent to which the tax provisions have recognized them, and dealt with each provision in turn, including Section 20, Finance Act, 1953, relating to subvention payments. Mr Bower concluded that groups of companies were a useful and probably permanent feature, and that the law had not yet established principles to meet this development; tax laws cannot follow the same trends as company law. The trend of development is uncertain, and in Mr Bower's opinion, consolidation should rest on ownership of income rights and not on voting control – the latter is useful for preventive measures but not for constructive measures.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

FOURTH RESIDENTIAL SUMMER SCHOOL

The theme of the fourth annual residential summer school of the Institute of Cost and Works Accountants which has been in progress at St Catherine's College, Cambridge, during this week, is financial management. The following is a summary of the papers which were presented:

Financial Control in Large-scale Undertakings

The first paper, entitled 'Financial control in large-scale undertakings', was given on Tuesday morning by Dr J. M. S. Risk, PH.D., C.A., F.C.W.A., Chief Accountant of the Southern Gas Board. Perhaps the main proposition of this paper is that there should be little or no difference in the form of control in all large-scale undertakings; in fact, Dr Risk feels that there are more similarities than differences in the control of the many types of economic activity under review, despite varying forms of legal organization.

The second principal conclusion which emerges from Dr Risk's study of present-day control practice, is that much could be done to improve our techniques.

Thirdly, it is essential to plan business operations in advance, and for this and other reasons, budgetary control is the best accounting tool available. But like other tools, this tool is useless unless *used*. Savings and improved productivity are not achieved merely by installing the mechanics of budgetary control: they come through intelligent application of the information presented. Moreover, results are achieved through the agency of human beings, and budgetary control is no substitute for good management.

Fourthly, the term 'financial accounts' has at present no precise meaning – as currently used it is considered to have no logical foundation. To remedy this, Dr Risk proposes that the term be reserved solely for accounts prepared in *subjective* form as these show the nature of expenses (e.g., totals of wages, salaries, insurance, materials). On the other hand, an accounting statement may be said to be in *objective* form when the expenditure is grouped according to the purpose or object for which it has been made (e.g., steam raising, operation of transport, production of goods and services).

The foregoing does not imply two separate systems since Dr Risk refers to the unfortunate and wasteful schism between what are called the 'cost accounts' and the 'financial accounts'. Only in comparatively recent years has it begun to be realized that the accounting system is one and indivisible: the data in the system may be expressed in different ways but such statements are merely alternative presentations of the same basic data.

Finance and the Cost Accountant

Mr A. D. Coventry, F.C.W.A., A.C.A., A.C.I.S., of the Industrial and Commercial Finance Corporation, is the author of the paper on 'Finance and the cost accountant', submitted on Wednesday. To foresee and compute capital requirements is primarily the responsibility of the management accountant or whoever is in control of the company's financial policy, asserts

Mr Coventry. To arrange for such requirements to be available when necessary is the function of the management – not to do so is a reflection upon its efficiency.

The demand for new capital existing at the end of the last war was created for the replacement of worn-out and obsolete machinery and the introduction of modern techniques. Since then, other and perhaps even more important factors have arisen, viz: (a) the insistent upward trend of prices; (b) the replacement of equipment at prices which have little relation to the book value of the old assets; (c) the persistence of high taxation; (d) the incidence of death duties falling upon those estates which consist, in the main, of shares in private limited companies.

In assessing the amount of facilities required, time and money spent in arriving at an amount which is 'just right' will be amply repaid. The basis of such assessments will generally be made from budget forecasts, commencing, as circumstances indicate, from a budget of anticipated sales or production capacity and incorporating the various intermediary and supporting budgets. From these will emerge the cash budget showing the deficiency which will be the basis of computation of the total additional funds.

Alternatively, a more simple and more approximate method is to compute the cost of the additional capital equipment and requirements to be incurred in carrying out the proposed programme, and then to compute, in addition, the working capital necessary to support the anticipated volume of sales.

In considering the many valuable techniques available to the management accountant, particularly in the smaller firm, it is often felt that a comparison of orthodox accounts does not give a sufficiently clear picture of variations in profitability. The 'Added value theory' (very-briefly, the value of the output or production, less the material used) seeks to overcome the greatest weakness of comparisons made by any 'time and output' method which lies in the varying factor of materials used.

Reasons for variations in profit between one period and another are explained in greater detail by a development of this theory known as the 'Comparative analysis theory', under which the accounts are analysed in sufficient detail to enable a concern to measure the degree by which each factor has contributed to the profit variation. Subsequent investigation invariably brings to light deficiencies and if remedial action is taken a great deal of good has been done and more efficient production achieved.

Comparable Costs

Lives there an accountant who at some time or another has not been dissatisfied with the method of classification of expenditure which he has inherited? Would we not readily have conspired with some genius who had the power (and the courage) to grasp this sorry scheme of things, shatter it to bits – and then remould it nearer to the heart's desire?

In his research paper on 'Comparable costs', given

on Thursday, Mr R. Y. Kennedy, C.A., A.C.W.A., Cost Accountant, Windsor & Newton Ltd, is conscious that the ideas he puts forward call for a considerable change in our accounting approach, but he views the change as being rather of a superficial, than fundamental nature.

One or more of four prime factors apply to all businesses: moneying, marketing, material acquisition and making. All four apply to industrial concerns and the proper blending of these factors is the art of business success. The classification of business activity by functions is fraught with difficulties; in a pure and logical form it has been found to be impracticable by many concerns owing to the ever-widening number of functions encountered. In the small concern, one individual is called upon to carry out many functions – 'he wears many hats'. Consequently the classification of such a business into the appropriate functions becomes a matter of academic interest.

The current trend is to concentrate mainly on a few groups of functions usually similar to the four prime factors enunciated. But it is felt that this classification is not sufficiently detailed to meet the needs of management and the breaking down of activities into functions has not proved satisfactory.

Therefore, Mr Kennedy suggests that, in the same way that the impulse from the brain can be regarded as directions of energy, so the activities of managers and their staffs can be defined. The classification of the directions of energy (termed DO's for simplicity) appears to be 'managing', 'prospecting', 'inspecting', 'recording', and 'sustaining'. A simple diagram shows

the latter in the centre, connected to 'managing' at *N*, 'prospecting' at *W*, 'recording' at *S* and 'inspecting' at *E*.

The proposal is that, apart from cases where current conceptions are necessary for specific investigations, a new set of conventions, based on the foregoing analysis of the framework of industrial organizations, be adopted. Accounts would be opened in the nominal ledger for each prime factor and the DO's and to these accounts would be posted the expenditure incurred in executing the appropriate activity. Mr Kennedy envisages a complete integration of cost and financial accounts, so drawn up that they would act as control costs of the entire organization.

It is contended that this system of classifying accounts is flexible and capable of universal application, and that the comparable cost statement, incorporating the same account headings and expressed in ratios resolves many of the difficulties encountered in uniform costing in that: (a) expenditure is collected in a form applicable to each and any concern; (b) the classification of expenditure has been carried out in accordance with basic principles; (c) control of cost is a primary consideration.

The Concluding Paper

The final paper was given yesterday (after this issue went to press) by Mr Harold Wincott, Editor of the *Investors' Chronicle* on 'Some reflections on modern capitalism'. Mr Wincott is of course well known for his forthright and stimulating writing, and there is little doubt that his address provided ample material for provocative discussion.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON NEWS FROM THE COMMITTEE

After reviewing the whole question of providing information for members of the Society, the committee has agreed on a number of changes in the methods to be used. It has been decided to cease publication of *Double Entry* and the Editor of *The Accountant* has kindly consented to allow us this space about once a month to publish news of the Society's activities, and also to publish each week details of lecture meetings. Programmes are being issued in card form, and standing information will be transferred to the annual report. It is hoped in this way to concentrate attention upon the chief activities of the Society.

In future a member of the committee will be present at every lecture meeting, wearing an identifying badge, to give members the opportunity of discussing the Society's activities.

Changes in Lecture Course

Changes have been made in the introductory lecture course: each lecture will now last forty-five minutes, and those lectures which were formerly given in two parts will now be condensed into one.

Lecture Attendance

It has been suggested that lecture attendance will be more regular and beneficial if two or more clerks from the same office can arrange to attend together.

Principals and office managers may be able to help in this matter.

Resignations

The committee has received with regret the resignations of Mr B. D. Barton, B.A., A.C.A., and Mr V. F. Berry, A.C.A. Mr Barton was chairman of the committee in 1951-52.

Sports

Cricket. In a match played on August 19th, the Society defeated the Incorporated Accountants' Students' Society of London and District by 45 runs.

A match with the Bristol Chartered Accountant Students' Society on September 2nd resulted in a draw.

Library News

Recent new books now in the library:

Internal Auditing (A. C. Smith).

Law in the Making (Allen).

Public Speaking and Chairmanship (Mills).

Studies in Costing (Solomons).

Preparation for Professional Examinations (Burton).

Business Finance (Paish).

Intestate Succession Tables (National Guarantee and Suretyship Corporation).

Copies of the accounts and other publications of the leading banks are also now available.

It is hoped to publish the next 'London Students' Page' in *The Accountant* dated October 31st.

NOTES AND NOTICES

Personal

MESSRS W. H. GRIGG & PERKINS, Chartered Accountants, of Central Chambers, 8/16 Park Street, Bristol 1, and of Chippenham, Taunton and Minehead, regret to announce the death of their senior partner, Mr Albert Edgar Perkins, F.C.A., who had been actively associated with the practice for over fifty years. The practice will be carried on by the remaining partners.

MESSRS PEAT, MARWICK, MITCHELL & Co and MESSRS DERRY & LEWIS, who have offices in Salisbury and Bulawayo, Southern Rhodesia, have established an office at Livingstone Road, Lusaka, Northern Rhodesia. The resident partner is Mr J. W. Storey, A.C.A.

MESSRS MOORE & MORELL, Chartered Accountants, announce that as from September 28th, 1953, their address will be changed from Burton Buildings, Parliament Street, Nottingham, to 12 Shakespeare Street, Nottingham. Telephone: 52834-5.

MR KENNETH W. JONES, A.C.A., A.S.A.A., A.T.I.I., announces that he has commenced to practise under the firm name of K. W. JONES & Co, Chartered and Incorporated Accountants, at 25 Kirkland Avenue, Barkingside, Ilford, Essex, with effect from September 3rd, 1953.

Professional Notes

Mr Robert Kemp, C.A., a partner in the firm of Hardie, Caldwell Ker & Hardie, Chartered Accountants, of Glasgow, has been appointed chairman of George Dobie & Son Ltd. Mr Kemp has been a director of the company since 1946.

Mr Alan A. Wylie, A.C.A., has been appointed a director of The Namunakula Tea Estate Co Ltd.

Mr William S. Hulton, M.A., C.A., A.C.W.A., has been appointed vice-president and general manager of Charterhouse Canada Ltd, of Toronto, the newly-formed subsidiary of the Charterhouse Industrial Development Co Ltd.

Mr H. P. Glennie, M.A., C.A., secretary of J. A. Prestwich Industries Ltd, has been appointed a director of the company.

Obituary

ALBERT EDGAR PERKINS, F.C.A.

We have learned with regret of the recent death at the age of 75 of Mr Albert Edgar Perkins, F.C.A., senior partner in the firm of W. H. Grigg & Perkins, Chartered Accountants, of Bristol.

Mr Perkins, who had been associated with his firm for over fifty years, was admitted an Associate of the Institute in 1901 and elected a Fellow in 1920. He was president of The Bristol and West of England Society of Chartered Accountants in 1931-32 and was a former president of the Bristol Chartered Accountant Students' Society.

A prominent Freemason, he was Past-Master of Powell Lodge and held provincial rank.

WILLIAM JAMES PHILLIPS, O.B.E., A.S.A.A.

It is with great regret that we announce the death, on September 14th, of Mr William James Phillips, O.B.E., A.S.A.A., Principal Accountant of the Admiralty since February 1951.

Mr Phillips who joined the service of the Admiralty in 1915, was admitted an Associate of The Society of Incorporated Accountants and Auditors in 1917. In 1924 he was seconded for special duty to supervise the installation of a costing system in the Royal Mint. He was appointed Deputy Principal Accountant of the Admiralty in 1939.

He was awarded the M.B.E. in 1923 and received the O.B.E. for his services to the Admiralty in the Birthday Honours of 1952.

An article by Mr Phillips on 'Rearmament and the prevention of excess profits' was published in our issue dated April 25th, 1936.

Australian Accountant's Appointments

Mr A. A. Fitzgerald, B.COM., F.A.S.A., F.C.A.A., of Victoria, Australia, has recently acted as chairman of a Dairying Industry Advisory Committee set up to advise the Minister for Commerce and Agriculture of Australia on the guaranteed return to dairy farmers for butter and cheese under a plan for stabilisation of the dairying industry. The published report of this committee has been received with great interest.

Another of Mr Fitzgerald's appointments is that of business adviser to the Department of the Army and member of a Board of Business Administration (of four members) in the Australian Department of Defence.

Mr Fitzgerald is well known to our readers, particularly to those who attended last year's International Congress, at the second session of which he was the rapporteur.

Chartered Accountant a Warden of a City Livery Company

Mr Leslie B. Prince, M.A., F.C.A., senior partner in the firm of Leslie B. Prince, Simon & Co, Chartered Accountants, of Bishopsgate, London, has been installed a Warden of the Worshipful Company of Farriers.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held next week:

Monday, 5.30 p.m., at the Institute: Lecture on 'Fraud in accounts', by Mr W. E. Parker, C.B.E., F.C.A.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'The fundamentals of business' and 'The English judicial system'.

The Institute of Internal Auditors

LONDON CHAPTER

The first meeting in the 1953-54 programme of the London Chapter of The Institute of Internal Auditors was held on September 9th, when Mr R. J. Gibbens, F.C.W.A., A.M.I.I.A., gave an address entitled 'Stock investment control'. Further meetings in the session, which ends with the annual general meeting on June 16th, 1954, are to be held at *The Kingsley Hotel*, Bloomsbury Way, London, WC1, as follows:

October 7th, 6.30 p.m.: 'My approach to auditing', by Mr A. Goudekot, L.N.I.V.A., Chief Internal Auditor, N. V. Philips Gloeilampenfabrieken, Holland.

November 4th, 12.30 p.m.: 'Personnel selection', by Mr B. Ungerson, C.B.E., B.Sc., Director of Personnel, John Lewis & Co Ltd.

November 28th, 10 a.m.: Day conference.

January 6th, 6.30 p.m.: Case discussions, introduced by Mr R. A. Reid, C.A.

February 3rd, 12.30 p.m.: 'Considerations of company organization', by Mr M. S. Cook, A.C.I.S.

March 3rd, 6.30 p.m.: 'Cost reduction by simplification and standardization', by Mr E. G. Brisch, DIPL.ING., M.I.MECH.E., M.I.PROD.E., Managing Director, E. G. Brisch & Partners Ltd.

April 7th, 12.30 p.m.: 'Internal auditing - its place in management', by Mr W. F. Edwards, F.S.A.A., Director and Treasurer, General Motors Ltd.

May 5th, 6.30 p.m.: 'Internal auditing in practice - the scope of my job', by Mr O. A. Mackinnon, C.A., and Mr J. Prince, A.C.A., A.C.I.S.

June 16th, 6.30 p.m.: Annual general meeting.

The main object of the Chapter is the development of internal auditing as a constructive aid to management, and membership is limited to those holding responsible managerial positions covering the field of internal auditing.

Mr R. C. Bedford, A.C.A., c/o The National Cash Register Co Ltd, 206-216 Marylebone Road, London, NW1, is secretary of the Chapter.

The Corporation of Secretaries

The following papers were read at the annual conference of the Corporation of Secretaries Ltd, which was held at Leamington Spa from September 17th to 19th.

'The secretary as an administrator' by Mr J. W. Chant, F.C.C.S., Secretary, North Western Electricity Board; 'Some aspects of insurance as they affect company secretaries', by Mr M. D. Bent A.C.I.B., A.C.I.I.; 'Local government reorganization', by Mr A. Hatt, LL.B. (LOND.) D.P.A., Clerk of the Council, Urban District Council of Billericay; 'The duties and responsibilities of the trade association secretary' by Mr Frank A. Ramsey, F.C.C.S.; 'The relationship between banker and customer with special reference to limited companies', by Mr H. G. Hodder, Manager, Intelligence Department, National

Provincial Bank Ltd; 'Negotiations and joint consultations' by Mr J. Melvin, District Organization Officer, National and Local Government Officers' Association. There was also a full programme of social activities.

Liverpool Society of Chartered Accountants

SOUTH LANCASHIRE BRANCH FORMED

The inaugural meeting of the South Lancashire Branch of the Liverpool Society of Chartered Accountants was held at St Helens on September 17th. Following the adoption of the constitution and rules of the new Branch and the completion of other formal business, Mr D. V. House, F.C.A., Vice-President of the Institute, gave a most stimulating address and invited questions from members. A lively informal discussion ensued on numerous topical subjects affecting the profession.

Among those who assisted in the formation of the Branch and took part in the proceedings at the meeting were Mr G. F. Saunders, F.C.A., a member of the Council of the Institute, and the following officers of the Liverpool Society of Chartered Accountants: Mr W. P. Scowcroft, A.C.A., (*President*), Mr E. T. Denton, B.A., F.C.A., (*Vice-President*), Mr G. N. Fullagar, F.C.A., (*immediate Past President*), and Mr C. C. Taylor, F.C.A., (*Hon. Secretary*), together with two officers of the Chester and North Wales Branch: Mr A. K. Tunnock, M.A., A.C.A. (*Chairman*), and Mr Frank Hack, F.C.A. (*Hon. Secretary*).

Officers and committee members of the new Branch were elected as follows:

Chairman: Mr D. R. Newman, A.C.A., Warrington.

Vice-Chairman: Mr C. A. Hunter, A.C.A., St Helens.

Hon. Secretary: Mr F. Potts, A.C.A., Wigan.

Hon. Treasurer: Mr L. A. Pardey, F.C.A., Wigan.

Committee: Messrs W. I. Livesey, A.C.A., St Helens; E. B. Marston, A.C.A., Warrington; F. Neatham, F.C.A., Warrington; J. C. Richards, M.A., A.C.A., St Helens; and E. Watkinson, A.C.A., Wigan.

It is interesting to note that the President of the Liverpool Society and the Chairman of the Chester and North Wales Branch and of the new Branch are all accountants in industry.

It is hoped that all members of the Institute residing or working in St Helens, Warrington, Widnes and Wigan and the surrounding areas will become members of the Branch. No subscription will be payable for the remainder of 1953. Members of the Branch automatically become members of the Liverpool Society without further subscription. Applications for membership should be sent to the Honorary Secretary, Mr F. Potts, A.C.A., Messrs Houghton & Potts, 35, King Street, Wigan.

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The Manchester Chartered Accountants' Students' Society

LECTURE MEETINGS, 1953-54

A comprehensive lecture programme has been arranged for the Society's 1953-54 session. Evening meetings will be held each week on alternate Mondays and Tuesdays, and Preparatory, Intermediate and Final courses of lectures will be held on Saturday mornings.

The evening meetings and the Saturday morning lectures for Final students will be at the Chartered Accountants' Hall, 60 Spring Gardens, and the Preparatory and Intermediate courses at Onward Hall, 207 Deansgate.

A similar series of Saturday morning lectures is to be held at the Reform Club, Chapel Street, Preston.

NINTH JOINT RESIDENTIAL COURSE

Members of the Manchester and Liverpool Chartered Accountant Students' Societies will assemble at Burton Manor, near Chester, next Monday, for their ninth joint residential course.

The programme follows the pattern which has proved so successful on previous occasions. The lectures - there are eight for Intermediate students and ten for Final students - will be followed by discussion periods in which students' difficulties can be resolved or be subsequently referred to the lecturer for explanation.

The Intermediate course extends from Monday to Friday, when the Final course commences and continues until Wednesday week.

ANNUAL MEETING

The Society's seventieth annual general meeting is to be held on October 5th at 5.30 p.m. and will be followed by a lecture on 'Professional ethics' by Mr R. H. E. Wilkinson, M.A., J.P., F.C.A., at 6 p.m.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 29TH, 1928
The Institute of Chartered Accountants in England and Wales: London Members' Committee

The Committee is, under its regulations, at present constituted as follows:—

Elected Members:—R. Kettle, F.C.A. (Deloitte, Plender, Griffiths & Co.), Chairman; E. Furnival Jones, F.C.A. (Allan, Charlesworth & Co.), Vice-Chairman; T. D. Cocke, F.C.A. (Reads, Cocke & Watson); B. J. Davis, F.C.A. (Wilson, de Zouche & Mackenzie); F. J. B. Gardner, M.C., F.C.A. (Nevill, Hovey, Gardner & Co.); Sir Basil Mayhew, K.B.E.,

F.C.A. (Blackburns, Barton, Mayhew & Co.); S. J. Pears, A.C.A. (Cooper Brothers & Co.); B. Sheldon, A.C.A. (Kemp, Chatteris, Nichols, Sendell & Co.) W. R. T. Whatmore, M.C., A.C.A. (Peat, Marwick, Mitchell & Co.).

Nominated by the Council:—Wm. Cash, F.C.A., F. Lindsay Fisher, C.B.E., F.C.A. (Fuller, Wise, Fisher & Co.).

Nominated by the London Students' Society:—John Myers, F.C.A. (Myers, Davies & Co.).

Hon. Secretary:—The Secretary of the Institute.

MARRIAGE

On 8th September Mr. Chas. Victor Best, A.S.A.A., was married to Miss M. M. Stephens, also an A.S.A.A. Mr. Best is a partner in the firm of Messrs. Lawrence, Hann & Best, and Miss Stephens was one of the earliest women accountants, having been articled to her uncle, Mr. G. H. Lawrence, F.S.A.A., immediately the Society of Incorporated Accountants and Auditors decided to admit women, and passing all her examinations at the earliest possible time.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF SEPTEMBER 28TH, 1878
Extract from a Note in Passing

The Comptroller's Report

The Comptroller's Report for the present year is perhaps the most portentous document which that official has issued, if we except the Supplemental Report of last year. It is certainly the longest and heaviest of his annual manifestos; which may be accounted for partly on the ground of a ponderosity of style to an extent unusual even with bankruptcy officials, and a want of concentrateness which causes such facts as are set forth to be distributed over many pages in much admired disorder. It is a work of no slight difficulty, therefore, to form any very clear conception of the Report as a whole. The impression left upon the mind of the most unprejudiced readers would be that the Comptroller is greatly irritated at certain facts, and is specially angry with certain individuals. The reason of this will be presently seen in his vain attempt to guide the commercial world into one particular channel of insolvency administration. His theory of what ought to be cannot be made by any process to square with what is. Again and again he reiterates that the creditors' only hope of financial salvation lies in their acceptance of bankruptcy and officialism in lieu of liquidation by arrangement and professional trusteeism; and with equal frequency the creditors decline to profit by this advice. . . .

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The Accountant

ESTABLISHED 1874

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VOL. CXXIX. NO. 4111

CONTENTS

Leading Articles	<i>Page</i>
Consolidation Query	377
The Finance Act, 1953 - IX	378
<i>Ex Fumo . . .</i>	380
Special Articles	
Balancing Charges	
by <i>T. J. Sophian</i>	381
Slide-Rules for Accountants	
by <i>R. Robert, A.C.I.S.</i>	383
Lecture	
The Nature and Purpose of Direct Taxation	
by <i>F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting</i>	384
Weekly Notes	388
Reviews	390
Finance and Commerce	391
Current Law	394
Correspondence	
Civil Engineering Plant - Professional Accountants in the Civil Service - The Accountant and the Farmer - 'Management Accounting: the Cash Forecast' - Receipts and Audit: Gardening Profits	395
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Taxation and Research Committee - Personal - Professional Note - Obituary - Chartered Accountant appointed Police Commander - Long Service Awards - Everest Expedition Leader addresses Incorporated Accountants - American Institute of Accountants - Third Inter-American Accounting Conference, 1954 - Tenth International Management Congress - The Value of Management Accountancy - Report on the Census of Production for 1950 - Assistant Official Receiver Appointments - Edinburgh Chartered Accountants' Golf Club - The Chartered Accountant Students' Society of London - Office Management Association - Twenty-five Years Ago - Seventy-five Years Ago - Overseas Economic Survey - Our Contemporaries	397

CONSOLIDATION QUERY

IT is generally assumed that the main purpose of consolidation is to expand the parent company's accounts so as to show the aggregate financial and trading position of the complete group. It sometimes happens, however, that because of the cancellation of positives and negatives the process may be one of contraction rather than of expansion, with the ultimate and usually undesirable result that obscurity instead of revelation is achieved by the exercise.

A short pamphlet which was published on Monday last by the Research Committee of The Society of Incorporated Accountants and Auditors, deals with a particular aspect of this generalization.¹ It instances the case of a subsidiary company which has made a trading loss large enough to transform the profit and loss account carry-forward into a debit balance. In the consolidation, this loss is offset by the aggregate profits of the other subsidiaries, but the question is posed - does the holding company's own profit and loss account reflect a true and fair view of its trading outcome if it does not make an appropriate provision therein for that part of the loss incurred by the subsidiary not covered by that subsidiary's own reserves?

In its proposed solution, the research committee makes two points. The first is that in any statement of group results, the aggregate profits and the aggregate losses should be disclosed separately. The second is that where one of the subsidiaries has made a material loss, the holding company's directors must consider whether it is necessary to depreciate the book value of the holding company's investment in that particular subsidiary. If such a course is deemed necessary, provision may be made either out of the holding company's own profits or from its reserves or undistributed surplus. If the former method is adopted, then the depreciation so charged must be shown in the profit and loss account. It is also recommended that the same account should be used if it is decided to appropriate reserves or undistributed surplus for the purpose, although specific disclosure of the transfer on the face of the balance sheet will suffice.

Although it is likely that the management of many holding companies already adopt the 'individual' rather than the 'aggregate' outlook towards the fortunes (or misfortunes) of their subsidiaries, the Society's research committee has performed a useful service in recommending a course of action which, if made current practice, would help to discourage possible abuse of the rather inconclusive sections of the Companies Act which deal with consolidation.

¹ *A Note on Consolidation.* The Incorporated Accountants' Research Committee. 6d.

THE FINANCE ACT, 1953—IX

Section 24 (1): Sums brought into Charge

SECTION 24 (1) deals with foreign income which the taxpayer applies abroad in or towards the satisfaction of a debt

- (a) for money lent to him in the United Kingdom; or
- (b) for money lent to him outside the United Kingdom and received or brought into the United Kingdom; or
- (c) incurred for satisfying in whole or in part a debt falling within (a) or (b).

The subsection provides that such income so applied is to be treated as received by the taxpayer in the United Kingdom (Case IV) or received from remittances payable in the United Kingdom (Case V).

A debt for money lent is deemed to be a debt incurred 'for satisfying' another debt within (c) above in so far as the money is applied in or towards satisfying that other debt (Section 24 (4) (a)). This definition is presumably intended to be exhaustive but the wording of the section is not clear on the point. A debt is deemed to fall within (c) if it is incurred 'for satisfying' another debt which is actually within (c) (Section 24 (4) (a)).

Section 24 (2): Income Applied before Borrowed Money Remitted

Section 24 (1) provides for liability, not when the money is borrowed or enjoyed, but when income is applied in paying off the debt. Section 24 (2) extends Section 24 (1) (b) to include a case where the debt is satisfied before the borrowed money was brought into the United Kingdom. In that case the money is treated as a remittance as on the day when it is actually brought into the country.

Section 24 (3): Constructive Satisfaction of a Debt

Section 24 (1) would apply only where the debt was actually satisfied by the application of foreign income. This would leave a wide loophole for evasion by mere book-keeping entries. For instance, the taxpayer may have two accounts at the foreign branch of his bank, and one account at its English branch. He could borrow, say, £1,000 from the English branch and then

transfer this overdraft to account A at the foreign branch. He could then deposit £1,000 of foreign income in account B at the foreign branch and give the bank authority to set off the credit balance at B against the debit balance at A at any time it chose – an authority which the bank did not propose to exercise, at any rate until the taxpayer sought to withdraw the deposit. This device is met by Section 24 (3) which provides as follows:

'24. – (3) Where a person is indebted for money lent to him, income applied by him in such a way that the money or property representing it is held by the lender on behalf of or to the account of the said person in such circumstances as to be available to the lender for the purpose of satisfying or reducing the debt by set-off or otherwise shall be treated as applied by the said person in or towards its satisfaction, if under any arrangement between the said person and the lender the amount for the time being of the said person's indebtedness to the lender or the time at which it is to be repaid in whole or in part depends in any respect directly or indirectly on the amount or value held by the lender aforesaid.'

Where the benefit of the debt is assigned by the lender or becomes vested in another person in some other way, the person who for the time being is entitled to the repayment is deemed for the purposes of Section 24 (3) to be the lender (Section 24 (4) (b)).

Section 24 (5): Transitional Exemption

The Government's intention to introduce Section 24 was announced on April 14th, 1953. Section 24 (5) provides that the section is not to apply in relation to income applied before April 6th, 1954, in satisfaction of a debt for money lent before April 15th, 1953, or of a debt incurred for satisfying such a debt. This gives the taxpayer approximately a year in which to repay debts incurred before the Budget speech, without attracting any tax liability.

Section 25: Postponement of Capital Allowance to Secure Double Tax Relief

Section 25 is intended to deal with one of the hardships that sometimes result from the rule which places a ceiling on double tax relief in each assessment year. The first Millard Tucker Committee reported that the evidence received

by it suggested that it was in the field of capital allowances that substantial inequity arises in practice. It gave the example of a company assessable under Case I of Schedule D which built a power station in India. For United Kingdom tax purposes the expenditure on construction would qualify for initial allowance as soon as it was incurred. For the purpose of computing Indian tax on the Indian profits, no capital allowance would be granted until the power station was brought into use, which might be some years later. The effect might be that in the earlier years there is heavy liability to Indian tax with little or no liability in the United Kingdom, while in later years the position is reversed. As double tax relief is restricted in each year to the income doubly taxed for that year, the company loses the benefit of the allowance. The Committee accordingly recommended that the taxpayer should be allowed to postpone the whole or part of the United Kingdom allowances to a subsequent year. Section 25 carries out this recommendation. It does not permit of the anticipation of United Kingdom capital allowances where the foreign country gives relief earlier than does the United Kingdom.

Scope of Section 25

Section 25 (1) in terms applies the section to persons chargeable under Case I of Schedule D, but Section 25 (7) extends it with the necessary adaptations, to professions, employments, vocations and offices and also to the occupation of woodlands if they are assessed under Schedule D and not Schedule B. The persons must be chargeable to foreign tax for which relief may be given under Part XIII of the Income Tax Act, 1952. 'Foreign tax' is defined as tax chargeable under the laws of any territory outside the United Kingdom (Section 25 (6) (b)).

Two conditions laid down in Section 25 (2) must also be satisfied, i.e. that

- (a) the foreign tax law provides for deductions or allowances corresponding to capital allowances but on a different basis so that they reduce the income to a less extent but are calculated to reduce subsequent income to a greater extent; and
- (b) the double tax relief is less than it would be if the United Kingdom capital allowances were the same in amount as the

deductions and allowances allowed by the foreign tax law.

Operation of Section 25

The conditions being satisfied, the taxpayer can claim to reduce the relevant United Kingdom capital allowances to the amount mentioned in (b) or to some intermediate amount and the balance is to be carried forward to the next United Kingdom tax year.

Section 25 (6) (a) makes it clear that the expression 'capital allowances' means allowances under Parts X and XI of the Income Tax Act, 1952, and that 'relevant capital allowances' is confined to allowances given 'in charging' the income, i.e. it excludes deductions made in arriving at the income. Moreover, the section is confined to allowances given in respect of the same expenditures or the same assets (Section 25 (5)).

Owing to the rules as to basis of assessment, some income charged to foreign tax may not fall into any United Kingdom computation, e.g. the actual income for a penultimate year. It would nevertheless fall into a profits tax computation if the taxpayer was liable to that tax, but condition (a) above would not be satisfied since the relevant capital allowances would not reduce the income for income-tax purposes. The difficulty is removed by Section 25 (4) which provides that the section is to apply to such a case as though the relevant capital allowance did reduce the income for income-tax purposes.

Section 25 (8): Pre-1953-54 Capital Allowances Excluded

United Kingdom assessments for 1953-54 and subsequent years may be affected by capital allowances computed for years before 1953-54 and brought forward. Section 25 (8) makes it clear that such allowances are nevertheless excluded from the operation of Section 25.

Section 26: Unilateral Relief Without Limit

Double tax relief under treaties extends to the full amount of the overseas tax subject to certain limits. Unilateral double tax relief has hitherto been confined to three-quarters in the case of Commonwealth countries; one-half in the case of foreign countries. Section 26 now removes these restrictions.
(To be continued.)

EX FUMO . . .

AMONG the first and most famous importations from the American Continent, in times when the scarcity of dollars had not yet reared its ugly head, potatoes and tobacco must rank very high. Sir Walter Raleigh's contemporaries were not so interested in either as they were in the more orthodox wealth which was almost at once to start its eastward flow; but posterity, though no less interested in riches, has yet moved both potato and tobacco much higher in the scale of values.

The 'bashful young potato' is one of the most innocent amenities of civilization. Not so, unfortunately, tobacco. In *The Accountant*, not long ago, a correspondent, a non-smoker himself, advanced the plea that smoking should be permitted at examinations. He pointed out that it is 'at times when things are going badly' that tobacco is most welcome to its devotees; and nowhere, we must all agree, do things go badly so consistently, for so many people, as in the examination room. Other letters followed: from a heavy smoker who has had no time, in his examinations, even to think of tobacco; from another, who has passed in his desperation by way of glucose sweets and chewing gum to the chewing of blotting paper, but who thinks even so that smoking would not make the examination room more salubrious; from a third correspondent, who told us a pleasant story of the chess player, Nimzovitch, with the balance of its implications on the side of the smokers.

It would be pleasant to believe that the amiable altruism displayed in this correspondence was typical of all discussion of such matters, but unfortunately it is within the experience of all of us that few angrier passions are roused in our ironically named civil life than those which are exercised in the smoking debate. From James I onwards it has been mainly the non-smokers who have been cross, the smokers, with Barrie their prototype, presenting an irritatingly complacent front through the fog of their own creation. In the nature of things this is to be expected: the non-smoker cannot easily annoy the smoker in a smoking compartment, the smoker is always and everywhere the aggressor. So, at least, must run our first thoughts. Our second, and juster, may

sympathize with him who is deprived of his drug by rules erected by the restrictionist 'anti': and we may all be grateful to our first correspondent for inducing this more charitable thought.

In business everywhere the question has to be settled by authority; and it is usually settled on the lines that those who serve in public are expected not to smoke, while those who work in private offices may do so. Even this division is not quite logical and, of course, where convention and not authority has the decision, logic is even further to seek: a surviving inhibition still prevents most women from smoking in the street and from smoking a pipe or cigar anywhere; and one wonders how long it will be before the historian pigeon-holes this modesty with the Victorian custom which sent men to smoke in attics and up chimneys. The rule for the examination room must also be authoritative, and all the authorities will probably ponder for a year or two longer before they change the general rule. It is interesting, nevertheless, to record that although there is a similarly general ban on smoking in libraries, there is an excellent library in the City of London, very well housed and highly efficient, where smoking is permitted. No morals can be drawn from isolated examples, but there at least no harm seems to have been done.

Of course, even when smoking is permitted, there is a whole range of controversy in this highly controversial subject. The ashy untidiness of the cigarette, which so regularly leaves scars on desks when it falls out of its ashtray, is urged against the bubbling horror of the pipe, revealing in its too-rare cleaning deposits messy enough to reform all but confirmed addicts. Subdividing even further, the Virginian majority protests against the ostentation of the Turkish minority, and a whole multitude of varieties of pipe tobacco shout one aroma against another. The cigar, most obtrusive of all, is enviously approved by nearly everyone.

In another country, we understand, smoking is forbidden in the cinema. We wonder if those who feel strongly that a non-smoking ban affects their work in the examination room would feel equally strongly that it would affect their enjoyment of the film.

BALANCING CHARGES

The Madras Electricity Supply Corporation Decision

by T. J. SOPHIAN

WHERE initial and wear and tear allowances have been given in respect of machinery and plant, a balancing charge, or, on the other hand, a balancing allowance, might arise upon the sale or destruction or other event referred to in Section 17 (1) of the Income Tax Act, 1945 (now Section 292 of the Income Tax Act, 1952).

Thus to take an instance, if the original cost was £2,000, and allowances totalling £1,000 had already been given in respect of the machinery or plant in question and the article was subsequently sold for £1,500, a balancing charge of £500 would arise, since £1,000 would have been 'contributed' in a sense by the Revenue, whereas the loss on realization would have been £2,000—£1,500=£500, so that an adjustment against the taxpayer by way of a balancing charge would have to be made in respect of the extra £500 (£1,000—£500) as it were, contributed by the Revenue.

But, on the other hand, if in the same set of circumstances the machinery or plant had been resold for £500, the 'contribution' of the Revenue towards the loss of £1,500 on realization (£2,000—£500) would have been £1,000 and therefore short by £500 of such loss, so that a balancing allowance in respect of the balance of the loss, i.e. £500 would arise.

Effect of Permanent Discontinuance

In order that a balancing charge or allowance should have arisen it was essential, according to Section 17 (1) of the Income Tax Act, 1945, that the events on the happening of which the charge or allowance might arise, should happen '*before the trade is permanently discontinued*'. But see now, Section 24 and Schedule 6 of the Finance Act, 1952.

But, by the proviso to Section 17 (1), there was expressly excluded for this purpose the notional discontinuance which would arise under Rule 11 of Cases I and II of Schedule D of the Income Tax Act, 1918 (now Section 145 of the Income Tax Act, 1952).

Rule 11 dealt with the position where there was a change in a partnership or where there was a succession to a trade or business etc. Under Rule 11 (1), if all the partners both prior and subsequent to the change so elected, the assessment was to be made on the basis that the

trade or business etc. would be discontinued at the date of the change. And under Rule 11 (2), where there was a succession there was likewise to be such a notional discontinuance.

But as already stated, notional discontinuances of this kind were to be ignored for the purpose of determining whether a balancing charge or allowance had arisen.

If, however, there was in fact a permanent discontinuance of the trade *before* the sale or other event referred to in Section 17 (1) took place, then a balancing charge or allowance would not arise.

Sale of Plant without Permanent Discontinuance of Trade

Now it seems on the sale of machinery and plant, one of two things can happen when the seller ceases to trade himself. Either he may sell the machinery and plant and completely wind up his business without disposing of it to the buyer or to anyone else, or, on the other hand, he may at the same time dispose of his goodwill and business to the buyer of the plant or machinery.

In the former case it may be argued that there would be a complete discontinuance such as to prevent a balancing charge or allowance arising; in the latter case, there would be no permanent discontinuance of the business of the seller, for although he himself might cease to carry on the trade, someone else would be carrying it on, and in the latter case the 'accrual' as it were of a balancing charge or allowance would not be affected.

Scottish Decisions

Reference on these points may usefully be made to two Scottish decisions.

In *C.I.R. v. Reid* (29 A.T.C. 217; 31 T.C. 402) the sellers who had carried on a fishing concern, sold a fishing vessel. The vessel was owned in shares, but no partnership contract or other written agreement was entered into between the respondents. The use to which the vessel was put and the division of the profits were regulated by the custom of the Scottish herring fishing industry. By that custom, a vessel would be owned by a number of persons who might or might not also be members of the crew. Each part owner would hold a number of shares in the vessel, not necessarily equally, such

shares usually amounting in the aggregate to 64. The fishing gear would be supplied by the net owners who might be but were not necessarily members of the crew. If an owner of shares in a vessel wished to sell them, it was customary to make such sale at the end of the fishing season; if the sale was made during the season the shares would ordinarily be offered in the first place to the other co-owners, but the part owner would be free to sell or mortgage his share as he pleased.

In this case the respondents continued to employ their vessel in fishing until the date when they sold all their shares in it to the purchasers.

Although the Court held that there was a 'sale' of plant in the circumstances, since the boat was obviously the heart and core of the fishing enterprise, and since *all* the shares in it were simultaneously sold out, yet in the circumstances there occurred simultaneously with the out-and-out sale, a discontinuance of the business carried on up to that time by the sellers and a balancing charge did not arise, since the Act provided that no balancing charge or allowance should arise, unless the sale occurred *before* the permanent discontinuance of the business. In a business sense the partners in the enterprise went into liquidation and retired from business, but the scheme of the Act required that a balancing charge should be recoverable only from persons still carrying on the business in question.

Disposal of Partial Interest by Part Owner

The other appeals heard with *Reid's* case dealt with the case where there was a disposal of only *part* of the shares in the vessel, by some of the part owners. In such circumstances the Court held that there would be no sale of 'plant' but merely a sale of a partial interest in the vessel concerned, so that a balancing charge or allowance would not arise.

Under Section 17 of the Income Tax Act, 1945, as originally enacted, therefore, the mere sale of 'plant' will not attract a balancing charge or allowance, unless the business of the seller either is continued by the seller, or else is transferred together with the 'plant' sold to the purchaser.

Sale of Business as well as of Plant

With these cases one may usefully compare *C.I.R. v. John Barr* ([1953] 32 A.T.C. 93; 46 R. and I.T. 217). There the business itself was also sold to the purchaser, but the Court of Session nevertheless held that there had been a permanent discontinuance of the trade by the seller and that a balancing charge did not arise. This decision, however, seems to be wrong, for the Court

apparently did not take into account the provisions, referred to above, of Section 17 (1) of the Income Tax Act, 1945, to the effect that a notional discontinuance on a succession to a business, as occurred in this case, was not to be taken into account.

Barr's case, in any event, was criticized in the English Courts, in *Boarland v. Madras Electricity Supply Corporation* ([1953] 2 All E.R. 467). In this case the company had sold its machinery and plant to the Madras Government as part of the sale of its undertaking, which was then carried on by the purchaser, the company itself going out of business and being wound up voluntarily. There was in this case likewise a 'succession' within Rule 11 (2) and a notional discontinuance of the trade accordingly. But the Court declined to follow *Barr's* case and held that as the notional discontinuance had to be disregarded a balancing charge could arise.

Crown 'A Person' within Taxing Statutes

The main point, however, of *Boarland v. Madras Electricity Supply Corporation* was whether the Crown could be regarded as 'a person' for the purpose of Rule 11 (2), and whether accordingly there could be a 'succession' when the sale was to the Crown. The principle it was sought to establish, but without success, was that in order that Rule 11 (2) should apply, it was necessary that the person succeeding should be a person who himself was chargeable to tax. And accordingly on such a view, it was argued that sales, not only to the Crown, but also to a person who would not be chargeable to tax, such as a charity, or a person resident abroad and not trading here, had to be disregarded for the purpose of Rule 11 (2).

As far as the Crown was concerned, the Court took the view that the words 'any person' in the rule in question were wide enough to include even the Crown. The Crown, it was pointed out, was regarded as a 'person' for the purpose of a taxing statute, and the reason why the Crown was not liable to tax was because of the exemption it enjoyed as the result of the Royal Prerogative. At the same time, having regard to the fact that the Crown is the grantee of taxes, it seems difficult to reconcile the idea of the Crown being 'a person' for the purpose of a taxing statute.

However that may be, the position must be regarded as having been now established by the *Madras Electricity Supply* decision that 'a person', for the purpose of Rule 11 (2), will include any person and even a person who is exempt from liability to tax.

SLIDE-RULES FOR ACCOUNTANTS

by R. ROBERT, A.C.I.S.

THE slide-rule, so far as accountants are concerned, still appears to be regarded with a certain amount of suspicion as an instrument best left in the hands of those who can afford to be content with results not required to be correct to the nearest penny. For the engineer perhaps, or even for the economist and statistician, the humble 'guessing-stick' may be a tool of some value, but for the accountant – no.

Now there is much prejudice in this attitude (where it does in fact survive), and one ventures to suggest that, intelligently used, the slide-rule can in very many ways prove itself a real time and trouble saver.

Many Different Types

In these days several different forms of the instrument are available; those of the 'pocket-watch' and 'telescopic tube' types having many advocates and being more suitable for specific purposes. Others of orthodox design, with a slider which moves to and fro on a wooden stock, are specially marked to facilitate commercial calculations. These few notes, however, are concerned with the rule known as the 'log-log' rule, with which a great variety of all kinds of mathematical computations can be carried out.

There will be no need to give an elaborate description, for it is no more than an ordinary slide-rule, which in addition to the customary A, B, C, and D scales, is provided with an additional one, making five in all. This fifth scale, running along top and lower edges, is useful in computing powers and roots when the exponents are fractional, and a practical use for it will be mentioned later.

Ease of Manipulation

It is assumed that the reader will be well aware of the general logarithmic principles on which the slide-rule operates. Multiplication is effected by the simple operation of adding one length or section of the rule to another, while division is reduced to a reverse process. Anyone who can use a logarithm table should be able to manipulate a slide-rule with ease. In any case instruction books are usually provided with the instruments, and it is not even necessary to know the difference between a mantissa and a characteristic. The whole business is mechanical, the only real *sine qua non*, if the slide-rule is to

be of value in making commercial calculations, being the ability to decimalize money with ease. (Although, here again, some rules have decimal conversion tables inscribed on the back of the stock.) The rest is almost entirely a matter of practice and facility in reading off the scales – for which keen eyesight is a great advantage in securing the highest possible accuracy.

This brings us to the important point; for what specific accounting chores can the slide-rule be used? Obviously, it cannot be regarded as an adding machine, for it is an instrument designed only for multiplication and division. Nor does it entirely do away with a certain amount of mental calculation, as, for example, in deciding where the decimal point in the answer should be placed. The slide-rule, therefore, is no substitute for the adding machine; its usefulness lies in a somewhat different sphere.

Examples of Usefulness

Take a simple example in connection with discounts. The reader will doubtless be acquainted with the manufacturer's invoice which quotes the price of an article at, say, 15s 9d plus 50 per cent plus 37½ per cent plus 25 per cent, less 50 per cent (an unholy practice which ought to be abolished). As an exercise in arithmetic this may not be very difficult, but it is rather tiresome when thrust upon an already overloaded brain. With a slide-rule the operation resolves itself into a few movements of slide and cursor. The money is decimalized, and three multiplications are then carried out, by 1.5, again by 1.375, again by 1.25; a final division by 2, produces the required answer in a fraction of the time that it would otherwise take.

Another way in which the slide-rule can prove its worth is in calculating percentages. Suppose a profit and loss account is being inspected, and it is desired to relate some particular expense, say stationery supplies, to the total overhead expenses. This is again simplicity itself. Inspection of the two figures will reveal the approximate answer, and it is then only a question of dividing one figure by another.

Value to Cost Accountants

It is the cost accountant employed in industry, however, who finds the slide-rule of more general use, for with its aid he can convert square yards into square feet and square inches;

he can calculate diameters and circumferences of circles, he can find squares and square roots. Given the total costs of a batch of articles produced in a factory, he is able to make rapid calculations as to the cost of a single unit. And he may continue making calculations over a long period without mental fatigue.

With the 'log-log' slide-rule, roots and powers involving a fraction can be worked out with comparative ease. The great value of this to the accountant is in making compound interest calculations; it is possible to work out by two or three movements of the slide how much, say, £98 will become in seven and three-quarter years at 6 per cent.

The formula adopted is as follows:

$$£98 \times (1.06)^{7\frac{3}{4}}$$

and the actual procedure is to find the answer for £1 only by means of the 'log-log' scale, and the

multiplication of this by 98 on one of the other scales.

Compound interest may also be worked out on the ordinary type of rule, for as inspection of the above example will show, such calculations involve nothing more than a series of multiplications: 1.06 is multiplied by 1.06 $7\frac{3}{4}$ times, and granted careful manipulation the answers obtained can be surprisingly accurate – to the nearest shilling if not to the nearest penny.

That the slide-rule has its limitations so far as accountancy work is concerned must be freely admitted. It is possibly more handy as a means of checking answers than arriving at them; but it is certainly a great boon to accountants with masses of statistics to interpret, and in the rarified atmosphere where accountancy merges into economics it becomes an almost indispensable aid.

THE NATURE AND PURPOSE OF DIRECT TAXATION

by F. SEWELL BRAY, F.C.A., F.S.A.A.
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AS is fitting in a course of this kind, we have felt that our main concern was with the machinery and administration of taxation. It is our job to help our clients and the Inland Revenue with proper measurements of income and capital, and to make sure that at those points where we touch the system as professional advisers, we cause it to run smoothly and justly. Nevertheless, we too are taxpayers, for none of us escape the mesh. We *feel* the burden, and when we conjoin these personal feelings with professional experiences gathered from years of watchfulness over other people's affairs, we sometimes find ourselves uneasy at the gathering momentum of direct taxation which time has revealed. It therefore becomes us to re-examine some principles in the hope of gaining a better understanding of its purpose.

It is but a commonplace to remark on the growth of activity in the public sector of the national economy. The State has brought under its canopy larger and larger commitments necessitating bigger and bigger transfers of income to meet them. The machinery of direct taxation is a complex means of arriving at a simple end, namely: the utilization of part of the value added by economic activity in society to the outlay needs of the central Government; or, if you so prefer, a means of assessing and collecting individual and institutional contributions for application to the purposes of common spending and investment.

Mrs Hicks has recently told us that in the early 1870s total taxes amounted to about 8 per cent of the national income; in 1953 they were approximately 40 per cent, and as most of us know 50 per cent of the latest figure of gross fixed asset formation 'is now on public account'.¹ It was not so very long ago that people simply thought taxation should be equal (not that incomes should be equal), and that it should be directed to the maintenance of the revenue, not to the guidance of commerce.² We still hear echoes of this point of view.

Direct taxation has been with us for some years now, and as we are thinking in terms of principles it is unlikely that anything very new or original will show itself. Nevertheless, it is instructive to go back and look at what earlier writers have had to say on the subject, and to judge their views in relation to the legacies of two major wars and changing social concepts. Most of us will recognize that two wars and uncertainty in regard to future strife have perforce imposed magnitudes of strain which no one could have contemplated in the calmer moments of the past. Perhaps, after all, it is not surprising that our present tax structure looks such a patchwork job.

Adam Smith, influenced by the social climate of his day, thought of those expenses of the sovereign, laid out for the general benefit of society, in terms of defence, the dignity of the chief magistrate, justice,

¹ 'The budget as an instrument of policy, 1837-1953', by Ursula K. Hicks – *The Three Banks Review*, June 1953, pages 16-17.

² Cf. J. E. Cairnes, *Political Economy and Laissez-faire*, page 238.

A paper presented on Saturday 20th at the Incorporated Accountants' Residential Course held in Cambridge from September 17th to 22nd, 1953.

roads and communications, education and religious instruction. These expenses are still of paramount importance, but there are interesting comments about education and religious instruction which bear repetition. Thus - "The expense of the institutions for education and religious instruction is likewise, no doubt, beneficial to the whole society, and may, therefore, without injustice, be defrayed by the general contribution of the whole society. This expense, however, might perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction, or by the voluntary contribution of those who think they have occasion for either the one or the other."¹

Adam Smith followed his chapter on the expenses of the sovereign by a discussion on the sources of revenue, and as is well known, he enumerated the following maxims of taxes in general.

- (i) "The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State."
- (ii) "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

No doubt this is still a salutary piece of advice to all concerned with the machinery of direct taxation, but I think we should have a little English fun at the odd sound of the following corollary:

"Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself."

- (iii) "Every tax ought to be so levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it."
- (iv) "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."²

In his Newmarch lectures delivered at the end of 1919, Stamp said that:

"Indisputable as these rules may be, they are now inadequate to the practical task of bringing under judgment the many difficult issues that confront us."³

Accordingly he set himself the task of examining the situation from the standpoints of the taxpayer, the central Government, and economic society at large. He wanted to find a practical compromise which would be best from all three points of view.

Elementally, the taxpayer should look at the

benefits he receives from State expenditure. The costs that each person causes the State to incur should be refunded, but of course there are social expenditures which benefit poorer people who cannot afford to make refunds, and there are expenditures which promote socially desirable benefits, which some people do not want. Thus, at a comparatively late date in our political history, we evolved the idea that the natural means of handling the situation was to determine ability to contribute according to resource, or command over goods and services.

But this expedient has brought its own problem. In his day, John Stuart Mill wanted equality of sacrifice with its universal sanctions of justice and morality, and he thought of it in terms of 'neither more, nor less inconvenience . . . than every other person experiences from his (contribution)'. In our day, we may be left to wonder whether ability to contribute can be made coterminous with equality of sacrifice, for as our president has implied, the expropriation of wealth from the thrifty must be according to real national needs if redistribution is to be justified. Only just lately Dr Shehab has said:

"The point at which income is divided (for purposes of taxation) into necessary and superfluous must be decided not solely by the individual's needs but by reference also to national needs. An equilibrium must be struck between the two. It is in the light of both that the distribution of the national income between the private and the public sectors of the national economy must be decided by the legislature, if the best results are to be obtained."⁴

The trouble with all this is blatantly apparent, and since it is almost impossible to be original when discussing a political topic of this nature, I make no excuse for drawing upon other people's well expressed comments. As accountants we should be very familiar with 'assumptions which are essentially *conventional* in character'. Therefore, to cite Professor Robbins:

"When, for purposes of discussion of . . . the effects of progressive taxation, we assume that the economic subjects are equally capable of deriving satisfaction from equal increments of income, we are certainly not even pretending to be talking about facts. If we were trying to make statements, about the facts of the situation, I suspect that most of us would say that people are not equal in this respect, that their capacity differs enormously. But that, of course, would be neither here nor there. For good or for bad, what we are doing in this connection is to make statements about the logical implications of certain conventions which, at bottom, are *political*. It is as though we had said, society will not be just, or it will not run so as to yield good results, unless we act *as if* the citizens were equally capable of satisfactions."⁵

Plainly there is much wisdom here.

¹ *The Wealth of Nations*, Everyman edition, Vol. II, page 298.

² *Op. cit.*, pages 307-308.

³ *The Fundamental Principles of Taxation*, page 4. (Macmillan, 1936.)

⁴ *Progressive Taxation*, by F. Shehab. A study in the development of the progressive principle in the British income-tax. Oxford, Clarendon Press; London, Cumberlege. (1953).

⁵ *Robertson on Utility and Scope*, by Lionel Robbins. Economica, New Series. Vol. XX, No. 78. May 1953. Page 109.

I suppose that confiscation as a by-product of graduation has always worried politicians with an economic bent, I suspect it is still troubling them, although this time the question is cast in a different role. Again, I fall back on Dr Shehab for elucidation.

"There is a point beyond which graduation cannot safely be carried as a permanent feature of the tax structure; evasion and disincentive are two far-reaching factors that would preclude its application in an arbitrary or extortionate form."¹

And so to the reviewer of Dr Shehab's book in *The Times Literary Supplement* who puts

"the leading question of today—how to maintain the high yields of taxation which the demands of modern social welfare and of defence alike require without at the same time destroying the incentive to effort".

Stamp has said that

"a progressive produce tax existed in Athens six centuries before Christ, and possibly an income-tax in Egypt a thousand years earlier, while in this country there was progression in the fourteenth and fifteenth centuries".²

Nevertheless, so far as this country is concerned, the application of progression to incomes never became a basic principle of direct taxation until the development of those economic ideas, associated with wants and their satisfaction, which looked at utility in terms of marginal increments. Marshall, you will remember, framed the matter thus:

"If we take a man as he is, without allowing time for any change in his character, the marginal utility of a thing to him diminishes steadily with every increase in his supply of it."³

"A greater utility will be required to induce him to buy a thing if he is poor than if he is rich."⁴ and

"the richer a man becomes the less is the marginal utility of money to him."⁵

We reach the situation in which progressive taxation is thought to be justified on the grounds that "we should tax what can be spared".⁶ But the argument does not end there, for Pigou, as it seems to me, explicitly worked his way into the field of redistribution theory. He said:

"it is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfaction. The old "law of diminishing utility" thus leads securely to the proposition: Any cause which increases the absolute share of real income in the hands of the poor, provided that it does not lead to a contraction in the size of the national dividend

from any point of view, will, in general, increase economic welfare."⁷

Again, and with rather more force,

"We must not hesitate, therefore, to conclude that, so long as the dividend as a whole is not diminished, any increase, within wide limits, in the real income enjoyed by the poorer classes, at the expense of an equal decrease in that enjoyed by the richer classes, is practically certain to involve an addition to economic welfare."⁸

And, if we should want any more convincing, there is this final pronouncement.

"Among other measures of inequality the most familiar is the mean square deviation from the mean. With that criterion it can be proved that, assuming similarity of temperament among the members of the community, a diminution in the inequality of distribution *probably*, though not necessarily, increases the aggregate sum of satisfaction."⁹

In this context perhaps we should remember that Marshall wanted the State

"to use its powers for prompting such economic and social adjustments as will make for the well-being of the people at large."¹⁰

At any rate, here we have most of the story to show us the influence of economic ideas on the progressive principle and we cannot fail to see that with the development of social aims, income redistribution has become a secondary but important feature of direct taxation. Nevertheless, I doubt whether either Marshall or Pigou looked much beyond transfers at the margins of incomes and I think we should especially notice Pigou's proviso concerning the diminution of the national income as a whole. Surely this is a point at which such taxation becomes inimical to the economic progress of society, and in any case there is much to be said for the contention that the process of taking away should not proceed beyond the *legitimate* needs of the State, although to define legitimate in this connection would want some doing. However, I think we can concede that some limits should be placed on very high incomes, and plainly very low incomes are undesirable.

I think we must all concede that any direct tax upon incomes is only possible in a mature society with some stability of Government. It must be fair and equitable, and reach over the whole body politic. In general, it is desirable that a direct tax should be paid as near to the receipt of the income, on which it is assessed, as can be conveniently contrived. The current year basis of assessment always has much to commend it, and in my judgment the present delay in the time of payment of sur-tax is a cause of aggravation.

In a talk of this kind, I think we should also just notice a few questions of principle which are very much the concern of the central Government. Stamp,

¹ Op. cit.

² Op. cit., page 41.

³ *Principles of Economics*, page 94.

⁴ Page 95.

⁵ Page 96.

⁶ Paley in 1830. Cf. Stamp's *Principles of Taxation*, page 41.

⁷ *The Economics of Welfare*, page 89.

⁸ Op. cit., page 96.

⁹ Page 97.

¹⁰ *After-War Problems*, page 317.

having had much experience, put them in the following form. He said that:

"The State as a tax gatherer has to ask and answer the following questions:

- (1) Is the proposed tax economical, or will it cost an unwarrantable amount to get in?
 - (2) Is it within the powers of the administration for assessment and collection, or is it too full of difficulties to be workable?
- Allied thereto is the question:
- (3) Will it be specially open to evasion and provoke dishonesty?
 - (4) Will the imposition of the tax tend to dry up the source of the tax, and so prove abortive for the revenue?
 - (5) Does it raise political difficulties at home and provoke unrest?
 - (6) Does it raise international difficulties or provoke conflict with other taxing jurisdictions?"¹

Most of these are obvious, but they bear restatement. In particular, I direct your attention to (3). If a tax is open to evasion then it is my view it is badly conceived. Legal evasion is not the same thing as dishonesty; it simply means that the implications of the tax were not properly thought out.

And now for a few general topics, and perhaps a few ideas, relevant to the whole discussion. I cannot help feeling that the present level of direct taxation on enterprise profits is so limiting enterprise savings that there is less inclination to embark upon new ventures. The development of new lines is always marked by some uncertainty, and surely there is less propensity to be venturesome or progressive, and so to face uncertainty, when enterprise savings are restricted. Thus, I hazard the view that in circumstances of high direct taxation a foreknown existence of profits is rather more likely to bring about increased operating costs than resourceful asset formation and, as I think we all sense, resourceful asset or capital formation is essential if we are to hold our own in world markets. Moreover, enterprise always has regard for revenue-earning assets, whereas collective asset formation is so often too devoted to considerations of security and long-run welfare.

A high direct taxation of enterprise profits which disregards the accounting implications of changing money values not only damps down progress, but can encroach upon business stability at existing levels of productivity. Shipping companies in particular are most sensitive to these effects. I quote from a speech of the chairman of the Union-Castle Mail Steamship Company to illustrate the point.

"Our wear and tear relief from taxation is based upon the actual first cost of the ships. . . . There has not been much imagination in the mental processes of those who have governed us in regard to the conundrum as to how industry is going to find the money for the necessary replacing of old plant, seeing they have prevented us from making anything like adequate provision to meet that requirement by refusing to relieve us of the penalizing effect of

taxation on moneys set aside for that purpose. . . . It surely cannot be over-simplification to suggest that sums definitely earmarked – frozen if need be – for rehabilitation of shipping fleets should be free from all taxation, on the clear understanding that the moment they are used for any other purpose they become subject to the full measure of taxation at the rates then currently ruling."²

I know that by now this argument has become all too familiar. What is not so familiar is that normal quantities of stocks essential to the operating activity of a continuing enterprise involve fixed commitments of capital just as much as items of plant, and should be so treated when it comes to the assessment of enterprise profits. Surely, whatever the revenue requirements of the State, and the levels of rates necessary to meet them, it is time that the principles of direct taxation encompassed some economic principles of income measurement. I *do* feel that there is something serious in the statement of Sir George Christopher:

'that sums required to meet any enhancement in the costs of rejuvenating the fleet . . . have to be found out of taxed profits or by borrowing or by both'.

Direct taxation is an inevitable concomitant of life in civilized society, but it can be pressed too far. Sir Henry Clay has recently reminded us that prices *secured* and profits *realized* are not the same things as prices *expected* and profits *planned*.³ We know that modern enterprise is repeatedly engaged in the attempt to forecast outputs and prices, costs and profits, and, most importantly, the balance of profits over which management has the outlay decision, i.e. profits after taxation, and dividend distributions. Accordingly, entrepreneurs think of income-tax as a material factor affecting prices. In the precise language of Sir Henry:

"The industrialist thinks of income-tax as affecting prices, because it influences his decisions and therefore the volume of business and the terms on which it is undertaken. On a single deal the risk involved is balanced against the net gain to be expected, and if the latter is reduced too far by tax, the deal will not be undertaken. On a project for increasing output, the cost of additional material and processing, adaptation and extension of plant, and other expenses, are all calculated; if the return to be expected *after tax* is not sufficient to cover these expenses, the project will not be worth undertaking. A tax on profits thus operates as a *tax on enterprise*, and tends to raise the *cost of enterprise*."

One other point. Our president is never done with his criticism of the present range and amount of Government expenditure. He rightly regards such expenditure as an inflationary influence. The emphasis, he argues, is always on the amount to be raised by taxation rather than on the curtailment of expendi-

¹ Speech by Sir George P. Christopher at the annual general meeting on May 28th, 1953.

² 'A note on taxation and prices' – *Progress*, Spring 1953 (Unilever Ltd).

³ *Principles of Taxation*, pages 103-104.

ture. I do not think it is difficult to see that a too-ready dependence on the revenue from taxation can very easily veil the presence of ineffective and excessive expenditure.

In our day we have seen the instrument of taxation used as one of the means of fostering a stable economy by way of the budget. You will remember the argument. It was the duty of the Government to counteract economic forces making for instability, and to this end budget deficits were respectable, provided they promoted a full employment of resources and were kept down to an effective minimum. Keynes made it clear that consumption and capital (i.e. asset) formation, whether on Government or private account, had to be kept in line with such real resources as were available. Thus, it came about that taxation fell into position as one of the policy expedients of a planned economy.¹ If the private sector failed to satisfy the real identity between savings and asset formation, then the public sector, with the aid of taxation, must redress the balance on whichever side it occurred. No doubt all would have been well if

public outlay had not proved so intractable, and international equilibrium so insecure.

I think we do well to remind ourselves that Government outlay depends upon the real income of the nation, especially that part of it which comes through enterprise, and that, however we look at it, such outlay can only be met out of that which remains after the living necessities of the community have been satisfied.² This is but the bare bones of the problem. Private savings are vital, whether transferred to the central Government or retained in private ownership, and, at bottom, it is for this reason that some have favoured an expenditure rather than an income-tax. By far the greater part of private savings comes from corporate enterprises, but, as we have seen, it is unlikely that such enterprises will be progressive if the greater part of their savings is delivered out of their jurisdiction. Moreover, a policy which sets the sights of individuals in terms of living necessities, and the provision of a minimum security, will end up by damping effort and restricting incomes. Defence expenditure in an unsettled world is inevitable, but the costs of a collective provider, and the costs of a central administration must never be allowed to endanger the free generation of incomes or the spirit of bold undertakings.

Fiscal policies, then, must have regard to the means available and the effect on national product. It should never be forgotten that effort, savings and the free acceptance of risks are vital to our future welfare. Again, it should not be assumed that the State *always* has the best qualifications for spending. Nevertheless, methods of taxation have to be tested by trials and errors. If they sometimes go too far, at least thereby they mark some points of strain; points which may serve to aid the course of future generations.

¹ It is interesting to observe that, in addition to intentional counter-cyclical changes brought about by Government action, progressive taxation produces certain automatic effects. Thus, Mr Lawrence H. Setzer, dealing with the individual income-tax in the United States, remarks that: 'An increase in personal income before taxes tends to bring about a greater than proportional increase in income-taxes by subjecting the addition to the higher graduated rates and by adding to the number of persons on the tax rolls. The rise in the disposable, after-tax incomes of households is thereby moderated. Conversely, a decline in personal incomes brings about a greater than proportional reduction in income-taxes and, therefore, a less than proportional decline in the disposable incomes of households. Beyond these automatic effects are the very substantial counter-cyclical changes in disposable personal incomes that Congress may now achieve by seemingly modest alterations in the level of personal exemptions and credits and in the tax rates applicable to the first bracket of taxable incomes.' Thirty-third Annual Report - National Bureau of Economic Research Inc, New York, May 1953.

² Much the same comment has been made by Professor R. C. Tress in his article 'Trends in public finance', *Lloyds Bank Review*, July 1953.

WEEKLY NOTES

Chartered Accountant on Board of B.O.A.C.

Mr Basil Smallpeice, B.COM., A.C.A., Financial Comptroller of British Overseas Airways Corporation since 1950, is being appointed to the Board of B.O.A.C. The main object of this new appointment, which is expected to come into effect soon, is to make improved provision for financial control at board level.

New Zealand Society of Accountants: New Secretary Appointed

Mr A. W. Graham, B.COM., A.R.A.N.Z., Wellington, has been appointed secretary of the New Zealand Society of Accountants and editor of *The Accountants' Journal*, New Zealand, and takes up his duties this month. He succeeds Mr J. M. Tocker, M.COM.,

ence in cost accounting and factory administration. He was promoted to his present position in 1949.

He has taken a keen interest in debating and was a member of the Wellington Junior Chamber of Commerce team which last year won the A Grade Parliamentary Shield donated by Wellington Members of Parliament for competition among local debating teams. This year he is leader of the chamber's team, which is a finalist in the national inter-chamber contest. He is also honorary secretary of the Ngaio branch of the National Party.

Higher N.C.B. Surplus

Higher coal prices continue to have a favourable effect on the quarterly financial returns of the National Coal Board. It will be recalled that there was a surplus of £500,000 in the first quarter of this year, and this has now been followed by one of £808,000 for the second quarter. The most encouraging feature of this higher surplus is that it takes account of the Whitsuntide and Coronation holidays. The profit figure has been struck after reserving £2 million for taxation and an estimated interest payment to the Ministry of Fuel of £4.05 million.

While the financial position has at least temporarily achieved some stability there is much less cause for satisfaction on the side of output and employment. At present, output is about 2.5 million tons lower than last year and, in order to get back to the 1952 level of production, there will have to be an increase of 170,000 tons in the weekly tonnage raised. Further, this will have to be achieved in the face of a decline in the labour force. Poor recruiting figures since the height of the summer have failed to offset normal wastage and employment has been reduced by 7,000, of which 2,000 are face workers.

Some of this development was foreseen earlier in the year and provision was made for imports. So far, about 208,000 tons have come into the country. There is, however, some comfort in the current rather gloomy coal picture in the fact that exports have done better than for the same period of 1952, though perhaps not as well as the Coal Board had hoped.

B.E.A.C.'s Net Loss

Although the experience of British European Airways Corporation is in some respects similar to that of B.O.A.C. in the year ended March 31st, it clearly has special difficulties in dealing with the shorter runs and congested terminals of Europe. In consequence, its financial results are somewhat less encouraging than those of its sister Corporation. They are very creditable in some respects, nevertheless.

In the year ended March 31st, 1953, B.E.A.C. made a net loss of £1,459,131. The main causes of this deficit are the cut in the tourist allowance which began in February 1952 and lasted until March of this year, the fuel strike in the United States, and fog. On the other hand, the Corporation is satisfied that the trend of operating costs is in the right direction and

there has been a reduction in the load factor necessary to break even.

In the new year it is expected that there will be substantial gains from operating the new aircraft which have been coming into service and the Corporation hopes to cease working at a loss at the end of another two years.

Output During the Holidays

According to the official index, industrial production continues to keep ahead of the corresponding period of 1952. In July the index registered 110 compared with 102 in the same month of 1952; that is a clear gain of 8 points. This compares with an advance of 6 points for the month of June.

From information available at present, it seems probable that in August the index will be around 105 or 106 and if this should be so, the improvement for that month will have been 6 or 7 points.

These encouraging figures are marred, however, by the unsatisfactory performance of coal-mining. The index for mining and quarrying was down by 10 points during July and is thus tending to keep down the total index. The implications are more than statistical for the next few months. If there is no significant improvement in the volume of coal production it is going to be difficult to maintain a high level of industrial activity without endangering the level of coal stocks and hence potential industrial activity in the early months of next year.

Sharp Fall in Rayon Production

Rayon has experienced its first large set-back since the recovery in the textile trades began just about a year ago. Total production was at 37.1 million lb in July, in other words at a record level, but it fell away in August by 22 per cent to 28.8 million lb. Holidays are the reason given for this sharp set-back and it is indeed understandable that after a period of recovery spread over twelve months with production records broken on three occasions, advantage should be taken of the opportunity to overhaul machines during the slack period.

Nevertheless, the fall is a severe one and not in accordance with trends for the same period of 1952 and 1951. In 1951, it is true, there was a decline, but it was of smaller dimensions than the one that has occurred this year. Last year, production held its own during August and then soared through September and October.

Figures for the next few months will be watched with interest to see if at last the recovery in textiles shows signs of coming to an end. With export markets showing some resilience and the home market enjoying a high level of industrial activity coupled with a fairly stable cost-of-living in the short run, there is every likelihood that recent gains in the textile industries will be held. But if there were signs even of a small easing off, wholesalers might decide to run off stocks with at least temporary adverse effects on the textile industries.

REVIEWS

Exchange and Trade Control in Theory and Practiceby **H. E. Evitt**

(Sir Isaac Pitman & Sons Ltd, London. 20s net)

This is the third edition of a book on exchange control and regulation as these have developed since the war. It is concerned with the principles on which administrative practice in this field is based and not with detailed accounts of mechanism and procedure. Since the last edition, the London foreign exchange market has been reopened and the European Payments Union has been inaugurated. There was therefore good reason for bringing the book up to date, and it is the closing chapters of the book, which deal with the developments in exchange control techniques in the last year or two, which will appeal to the general reader and the student. Here in one place is a fairly detailed account of the operation of E.P.U. — a subject which can usually be studied only by tedious references through current financial journalism.

Mathematics of Investmentby **William L. Hart**

(D. C. Heath & Co, Boston, U.S.A.;

George G. Harrap & Co Ltd, London. 25s net)

This book is for the specialist or would-be specialist. It offers a first course in the theory and application of annuities certain and the mathematical aspects of life insurance. The aim of the book has been to adapt the material, especially those parts dealing with annuities certain, to the needs and the abilities of the student. Being American, the author has had in mind the typical student in a college of business administration in the United States. It is not therefore prepared to fit automatically into one of the recognized curricula in this country. With that warning given, the exposition of the book and the exercises will be of interest to students and to those who have the oversight of the preparation of students' material.

Home and Foreign Investmentby **A. K. Cairncross**

(Cambridge University Press, London. 30s net)

This series of studies in capital accumulation in the Victorian era has been in the making for a number of years and several of the papers have been brought up to date for publication. Within the scope of a few lines it is not possible to comment effectively on the individual chapters. The book has the great merit of being incisive (Professor Cairncross picks his way fastidiously through difficult statistical material in some of the chapters) without ever being dull. It goes over a period of British economic history which has been noted for easy assumptions in the

past by economists rather than for careful examination. The author asks a number of basic questions about the growth of capital in Victorian times and the effects of accumulation at home and abroad, and offers tentative answers. This is a book not only for the academic economist but also for the student once he has imbibed the principles of 'classical' economics and is ready to challenge certain of their assumptions. It is a book too for the general reader interested in economics, for as well as being clear and readable it can be dipped into a chapter at a time.

Illustrations to Income Tax**Fifth Edition**by **A. S. Silke, M.Com.(Hons.) (Cape Town)**
C.A.(S.A.)

(Juta & Co Ltd, Cape Town. 67s 6d net)

The title of this book does it less than justice, for it implies a much more limited scope than it does in fact encompass. Nevertheless, it serves to stress the author's strongly-held conviction that to become expert in income-tax one must not only know the law but also be able to apply it accurately in concrete cases, in terms of figures. Accordingly he gives more than 100 worked examples within his text.

Also included are income-tax tables showing the tax payable by individuals in the various provinces of the Union of South Africa, the provincial tax ordinances, a summary of the recommendations of the committee of inquiry into the Union Income Tax Act, the text of ten double taxation agreements and of the Union Income Tax Act, 1941. The book is thus complete in itself. Its first edition, published only seven years ago, had an immediate success which has continued for successive editions.

RECENT PUBLICATIONS

PERSONNEL RECORDS, edited and revised by Gordon Bevan, M.C. viii + 51 pp. 10 × 6. 7s 6d net. Industrial Welfare Society, London.

FOUR ESSAYS IN ACCOUNTING THEORY, by F. Sewell Bray, F.C.A., F.S.A.A. 94 pp. 8½ × 5½. 15s net. Oxford University Press, London.

MANAGEMENT ACCOUNTING, by Leslie V. Wheeler. 144 pp. 8½ × 5½. 21s net, post free 21s 6d. Gee & Company (Publishers) Ltd, London.

MEN OF MATHEMATICS, Vol. I, by E. T. Bell. xii + 321 pp. 7 × 4½. 2s 6d net. Penguin Books Ltd, Harmondsworth, Middlesex.

MEN OF MATHEMATICS, Vol. II, by E. T. Bell. xix + 323 + 645 pp. 7 × 4½. 2s 6d net. Penguin Books Ltd, Harmondsworth, Middlesex.

THE LEGAL ASPECTS OF BUSINESS, by H. R. Light, B.Sc. (Lond.), F.C.I.S. xvii + 318 pp. 9 × 5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.

REGISTER OF DEFUNCT AND OTHER COMPANIES REMOVED FROM THE STOCK EXCHANGE OFFICIAL YEAR BOOK, 1953. iv + 505 pp. 10 × 7. £1 10s net. Thomas Skinner & Co (Publishers) Ltd, London.

FASTER THAN THOUGHT, edited by B. V. Bowden, M.A., Ph.D.(CANTAB.). xix + 416 pp. 9 × 6. 35s net. Sir Isaac Pitman & Sons Ltd, London.

FINANCE AND COMMERCE

London stock markets, while not showing any great amount of activity, appear to be quite confident and, taken as a whole, values are well maintained on the higher levels established shortly after the recent reduction in Bank rate. The lead is taken by British Government securities, but home industrials are receiving a measure of support.

Beechams

If any of our readers can obtain a copy of the Beecham Group's publication, they will have an excellent example of modern company reporting. The whole thing runs to twenty-four pages but in the interests of space we have taken for reprint the summarized consolidated balance sheets and the set-out of trading results, the latter appearing in the chairman's review.

We have also extracted from the statistical matter the tables showing home sales, export and overseas sales, and export and overseas profits. It may look in the reproduction rather like a mass of figures but it does bring out the strong endeavour which the Beecham board makes to show how this widespread business is going on.

The statistical material issued by this company goes so far as to include the statement that 'the sales in the home market of the Group's proprietary foods, medicines and toilet products at ex-factory prices amounted to £10,947,528. The equivalent retail sales value, i.e. the amount paid over the counter by customers, was approximately £20,293,000.

The dissection of this last figure shows, among other things, that advertising and sales promotion took 10 per cent of £20-odd million, while wholesalers' and retailers' margins took 25 per cent and purchase tax 20 per cent. Of the balance, supplies, wages, depreciation and other expenses absorbed 38 per cent and income-tax and profits tax 4 per cent, leaving 3 per cent as net profit for reserves and dividends.

Another interesting feature in the report is the detailed review of the group's activities in the western hemisphere. It is the intention of the board from time to time to 'turn the spotlight of attention' on to one aspect of the group's business.

Congratulations

Congratulations to the board of The Morgan Crucible Co Ltd on the improvement this year, which, as the 'Notes on changes in style of presentation' point out 'provide a more pleasing layout'.

The main point is the presentation of group and parent balance sheets together over two opposite pages, group with comparisons to right and parent to left of the narrative. Detail has been eliminated to a considerable extent from the actual balance sheets, one interesting departure being the state-

ment in a separate 'box' above the liabilities side of the capital structure. The balance sheets proper, therefore, open with 'preferential stock, as above', amalgamating two lines of preference capital and then in the next group down 'ordinary stockholders' funds' showing 'ordinary stock, as above', amalgamating three lines of ordinary followed by the reserves and undistributed profits.

A further innovation is the bringing of the detail into the direct context of the balance sheets instead of overleaf. This is done by extending the balance sheet pages with 'fly-folding leaves' carrying the notes on the balance sheet items so that with the fly leaves opened out, there is the whole of the balance sheet position and the separate notes. Balance sheets cover 17 inches wide by 10½ inches and with the fly leaves open, the width is extended to 29 inches.

A further addition this time is the five-year comparative statistics from which we have taken the narrative and the figures of the last year to March 31st.

Next year the board should give turnover figures. Their view apparently is that owing to the Group's wide ramifications, turnover figures might be misleading or at least might be inaccurately interpreted. There might, for instance—so we understand the board's view—be a weighing down on the results of the main business by the inclusion of the results of new departments in course of development. Surely, however, such factors can be explained by the chairman with the figures.

THE MORGAN CRUCIBLE CO LTD COMPARATIVE STATISTICS OF THE GROUP

	1953
Issued Capital	£ 4,538,960
Reserves including Future Tax	4,359,958
Minority Shareholders' Interest	416,886
Long-term Liabilities	1,005,238
Total Capital Employed	£10,321,042
Fixed Assets—Goodwill	£ 2,392,158
Land, Buildings, Plant and Equipment	3,121,186
Investments	287,993
Net Current Assets	4,519,705
Net Additions to Land, Buildings, Plant and Equipment	362,481
Group Profit before Tax	1,524,758
Taxation	816,836
Group Profit after Tax	£707,922
Profit attributable to Ordinary Stockholders	£ 615,420
Net Dividends paid to Ordinary Stockholders	166,816
Profit retained in and for the Business	£448,604
Profit retained as percentage of Ordinary Stockholders Funds	% 7.5
Profit distributed as percentage of Ordinary Stockholders Funds	2.8

Fees Waived

We seem to discern in the report of the directors of Bambergers Ltd, the timber importers, an acknowledgment that a review of business conditions should accompany the year's accounts. The report refers shareholders to the accompanying chairman's statement dealing with trading conditions.

One has to remember the fact that the large majority of shareholders in public companies, often with many investment interests, cannot give the time and expense to travelling to company meetings. All shareholders should therefore be placed on the same footing so far as information is concerned.

There is an interesting item in the notes on this company's accounts. The managing directors, it is stated, have waived part of the emoluments to which they are entitled under their agreements condition-

ally upon their not being assessed to taxation on any part of the amounts so waived.

The accounts show directors' emoluments for management at £36,402 as compared with £36,996, but there is no indication of the total entitlement and the amount conditionally waived.

Money Market

Applications for £270 million in Treasury bills offered on September 25th totalled £362,150,000, compared with applications of £340,630,000 the previous week when £280 million in bills was available. Tenders at £99 9s 4d received about 70 per cent of requirements, and those above in full. Average discount rate worked out at £2 2s 8.05d compared with £2 3s 0.06d per cent the previous week. The amount to be offered on Friday, October 2nd, is to be increased to £280 million.

BEECHAM GROUP LIMITED Summarized Consolidated Balance Sheets

	1949	1950	1951	1952	1953
Current Assets:	£	£	£	£	£
Debtors and Stocks	6,130,763	7,131,843	8,805,919	9,771,911	8,495,454
Balances at bankers and Cash in hand	524,280	672,745	660,388	473,983	1,229,798
	£6,655,043	£7,804,588	£9,466,307	£10,245,894	£9,725,252
Current Liabilities:	£	£	£	£	£
Bank Overdrafts	1,413,844	1,295,604	1,188,393	2,618,811	676,233
Trade Creditors	1,409,986	2,205,212	2,972,795	2,690,293	2,660,934
Other Creditors and Provisions	862,618	1,017,084	1,468,121	1,419,403	1,534,495
	£3,686,448	£4,517,900	£5,629,309	£6,728,507	£4,871,662
Net Current Assets or Working Capital	£2,968,595	£3,286,688	£3,836,998	£3,517,387	£4,853,590
Fixed Assets	4,295,965	4,447,271	4,246,448	4,717,503	4,903,732
Goodwill, Formulae, Trade-marks, etc., and excess of book value over par value of shares in Subsidiaries	10,952,668	11,194,672	11,092,750	11,205,149	11,044,303
Consolidated Net Assets	18,217,228	18,928,631	19,176,196	19,440,039	20,801,625
Interests of Outside Shareholders in Subsidiaries	5,921,529	5,993,831	5,976,237	5,874,815	5,832,424
Surplus	£12,295,699	£12,934,800	£13,199,959	£13,565,224	£14,969,201
Representing:					
Issued Share Capital:	£	£	£	£	£
10 per cent Cumulative Preferred Shares	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
4½ per cent Redeemable Cumulative Preference Shares	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Deferred Shares	1,512,500	1,512,500	1,512,500	1,512,500	1,850,000
	£5,012,500	£5,012,500	£5,012,500	£5,012,500	£5,350,000
Reserves:	£	£	£	£	£
Capital Reserves	5,227,042	5,550,855	5,451,668	5,578,574	6,261,988
Revenue Reserves	2,056,157	2,371,445	2,735,791	2,974,150	3,357,213
	£7,283,199	£7,922,300	£8,187,459	£8,552,724	£9,619,201
	£12,295,699	£12,934,800	£13,199,959	£13,565,224	£14,969,201

Distribution of Trading Profits

	1948/49	1949/50	1950/51	1951/52	1952/53
Trading Profits	£1,816,843	£2,427,430	£2,735,077	£2,605,058	£2,531,518
Taxation	951,451	1,361,759	1,602,166	1,509,856	1,563,492
Redemption of Preference Shares	22,963	37,535	24,666	25,719	26,862
Dividends to:					
Outside Shareholders in Subsidiaries	179,206	191,365	189,877	182,142	174,402
Beecham Group Preferred and Preference Shareholders	147,125	147,125	147,125	140,437	140,437
Beecham Group Deferred Shareholders	299,475	332,750	331,237	324,713	390,350
Profits retained in the Group	216,623	356,896	440,006	422,191	235,975
	£1,816,843	£2,427,430	£2,735,077	£2,605,058	£2,531,518

Trading Results

The total trading profits of the Beecham Group for the year ended March 31st, 1953, amounted to £2,531,518 compared with £2,605,058 in the previous year

The Group's Income from sales of its proprietary products amounted to	£	19,193,361
The Group's Income from sales by its grocery wholesale companies amounted to	£	5,958,735
	Total	<u>£25,152,096</u>

£22,620,578 of this income was required for:

Raw materials, supplies and services	£	15,555,624
Salaries, fees, wages, pensions and pension scheme costs, paid to or on behalf of directors and employees, including staff participation in profits		3,051,894
Advertising and sales promotion		3,626,680
Depreciation of plant and other fixed assets		386,380

Leaving £2,531,518 which was distributed as follows:

British Income-tax and profits tax and overseas taxation		1,563,492
Redemption payments and fixed dividends to preference shareholders and dividends to other outside shareholders in subsidiaries		341,701
Dividends on the deferred shares of Beecham Group Ltd		390,350

The remainder, £235,975, was retained in the business as additional working capital.

BEECHAM GROUP LIMITED

Export and Overseas Profits

Market	Year ended March 31st				
	1949	1950	1951	1952	1953
U.S.A. and Latin America	£ 160,114	£ 293,050*	£ 286,206	£ 246,930	£ 102,405
Canada	74,098	165,625*	186,170	128,252	166,583
Australia and New Zealand	61,766	89,507	99,803	114,725	37,113
Malaya and the Far East	84,085	86,597	198,897	201,726	182,691
South, East and West Africa, Rhodesia, etc.	186,916	218,764*	247,588	294,867	216,471
India, Pakistan, Burma and Ceylon	74,541	84,536	110,934	152,518	42,538
Continent of Europe and Elre	41,677	70,312	109,776	112,253	135,533
Egypt, Palestine, North Africa and Mediterranean	23,519	19,366	29,845	15,529	19,709
Other markets	33,277	89,290	97,824	111,553	89,183
	739,993	1,117,047	1,367,043	1,378,353	992,226
Less Expenses of Export Departments	51,739	52,940	100,150	133,045	97,971
	<u>£688,254</u>	<u>£1,064,207</u>	<u>£1,266,893</u>	<u>£1,245,308</u>	<u>£894,255</u>

* Including profits for fifteen months in respect of certain overseas subsidiaries.
This table includes profits of agency business in certain overseas markets.

Export and Overseas Sales of Group Products

Market	Year ended March 31st				
	1949	1950	1951	1952	1953
U.S.A. and Latin America	£ 1,494,644	£ 2,446,506*	£ 2,343,271	£ 2,576,798	£ 2,760,069
Canada	431,062	661,755*	609,767	654,122	713,772
Australia and New Zealand	701,397	837,924	1,027,815	1,075,758	854,597
Malaya and the Far East	259,030	324,428	467,967	501,235	455,467
South, East and West Africa, Rhodesia, etc.	941,145	1,152,550*	1,303,913	1,629,618	1,579,967
India, Pakistan, Burma and Ceylon	329,890	375,026	490,890	590,221	445,641
Continent of Europe and Elre	127,292	165,059	319,434	821,114†	926,814†
Egypt, Palestine, North Africa and Mediterranean	154,682	98,464	126,732	149,361	134,306
Other markets	166,671	297,115	316,945	427,889	375,200
	<u>£4,605,813</u>	<u>£6,358,827</u>	<u>£7,006,734</u>	<u>£8,426,116</u>	<u>£8,245,833</u>

* Including sales for fifteen months in respect of certain overseas subsidiaries.

† In order to be comparable with sales in other markets the 1951-52 and 1952-53 sales in the Continent of Europe have been computed on a different basis from that adopted in previous years.

Home Trade

	Year ended March 31st				
	1949	1950	1951	1952	1953
Proprietary Foods	£ 2,060,252	£ 1,981,362	£ 2,605,693	£ 3,178,146	£ 3,982,553
Proprietary Medicines	2,794,982	3,208,238	3,191,108	2,872,649	3,031,462
Proprietary Toilet Products	2,655,953	3,607,071	3,990,801	4,007,260	3,933,513
	7,511,187	8,796,671	9,787,602	10,058,055	10,947,528
Sales by Grocery Wholesale Companies	5,611,892	5,731,900	6,272,433	6,927,153	5,958,735
Total	<u>£13,123,079</u>	<u>£14,528,571</u>	<u>£16,060,035</u>	<u>£16,985,208</u>	<u>£16,906,263</u>

CURRENT LAW

Apprenticeship Deed

In *McDonald v. John Twinn Ltd* (*Law Journal*, July 24th, 1953), the Court of Appeal held the defendants liable on an apprenticeship agreement in the form of a deed executed by the plaintiff and his father, and merely stamped by the defendants with their name. The plaintiff was dismissed for misconduct which, though it amounted to the breach of an express term of the agreement, was not such as to justify the defendants in summarily dismissing him. He was accordingly entitled to damages. Sir Raymond Evershed, M.R., held that the affixing to the deed of the name of the company was a sufficient execution within Section 32 (1) of the Companies Act, 1948.

Sale of Goods - Dispute - Arbitration

Buyers agreed to sell zinc ingots from sellers under a contract, one term of which provided that resort should be had to arbitration to settle a dispute, in accordance with the rule of the London Metal Exchange of the National Association of Non-Ferrous Scrap Metal Merchants. A dispute went to arbitration and an award was given in favour of the sellers, but the buyers sought to declare it a nullity on the ground that their arbitrator was not qualified.

Parker, J., held that, the buyers having acted all along as if their arbitrator was qualified, they could not now contend that he was not. The award was therefore valid. (*Oakland Metal Co Ltd v. D. Benaim & Co Ltd.*) (*Law Times*, July 24th, 1953.)

Friendly Societies Act, 1896

In *Re Pilkington Brothers Ltd Workmen's Pension Fund* (*Law Journal*, September 4th, 1953), a friendly society sought to amend the trust so that a body corporate could be sole trustee. The Registrar of Friendly Societies refused the application on the ground that the change was contrary to the Friendly Societies Act, 1896.

Danckwerts, J., held that the provisions of the 1896 Act were not inconsistent with the appointment of a corporation as a trustee, for a corporation was capable of complying with Section 23 (3), relating to the signature of a resolution; and, therefore, no contrary intention within the meaning of the Interpretation Act, 1889, Section 19, being proved, the word 'person' in Section 25 (4) of the Act of 1896 included a body corporate. The Registrar was thus directed to register.

Defect of Title: Solicitor's Negligence

In *Pilkington v. Wood* (*Law Journal*, August 28th, 1953), the plaintiff bought a house in Hampshire, the vendor conveying as beneficial owner. The plaintiffs' solicitor failed to inform him of a defect in the

title. The plaintiff later contracted to sell, but the prospective purchaser discovered the defect and refused to complete, as a result of which the plaintiff was put to considerable expense. He accordingly sued his solicitor for damages, but the latter contended that he should first proceed against the vendor in respect of breach of the covenant implied under Section 76 (1) (A) of the Law of Property Act, 1925.

Harman, J., held that the duty of the plaintiff to mitigate the damage did not extend to obliging him to sue the vendor; nor was he under a duty to re-sell so that the damage might be quantified. The solicitor was guilty of negligence; he had no knowledge, however, of the possible effect of his negligence in causing the plaintiff unnecessary expense and thus this was not recoverable against him.

Fire Insurance: Arbitration

A policy of fire insurance provided for arbitration and that an award should be a condition precedent to legal action against the insurers; it further provided that if a claim was fraudulent, all benefit under the policy should be forfeited.

Early this year the insurers repudiated a claim on the ground that it was brought fraudulently and the claimants began this action. The proceedings were stayed under the Arbitration Act, 1950, Section 4 (1) on the insurers' application and later an appeal against the stay was dismissed by Barry, J., without prejudice to the claimants' right to apply for an order under Section 24 (2) of the Arbitration Act, 1950.

The Divisional Court held that it was the appropriate Court to which an application under the Act should be made (*Kruger Townwear Ltd v. Northern Assurance Co Ltd.*) (*Law Journal*, September 4th, 1953).

Will: Qualification

The Court of Appeal have reversed the decision of Vaisey, J., in the case of *Re Allen, deceased, Faith v. Allen and Others* (*Law Journal*, September 18th, 1953). The facts were that a testator left real property to the eldest son of F. 'who shall be a member of the Church of England and an adherent to the doctrine of that Church'; further that if there were no son of F. in that category, then the property should go to W.

The Court of Appeal held that these words constituted not a condition precedent, but a qualification or limitation, and did not create a condition subsequent; and that, therefore, the requirement was not void for uncertainty. The Master of the Rolls (Sir Raymond Evershed) and Birkett, L.J., held, further, that it was not impossible for someone to prove adherence to the doctrine of the Church and that he should be given an opportunity to satisfy the Court that he substantially complied with the testator's requirements. Romer, L.J., dissented on this point.

Rent Restriction: Alternative Accommodation
In *Barnard v. Towers* (*Law Journal*, September 18th, 1953) the landlord claimed possession of a house which came under the Rent and Mortgage Interest Restrictions (Amendment) Act, 1933, on the ground that suitable alternative accommodation was available. This accommodation consisted of a house of which the tenant was joint owner and which she would be

obliged to share with her sister, who was already living there.

The Court of Appeal held that the accommodation was not suitable alternative accommodation within Section 3 (1) (b) of the Act in respect of a tenant who had exclusive occupation of the house to which the landlord claimed possession, and thus no order would therefore be made.

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Civil Engineering Plant

SIR, - I am engaged on the taxation matters of a client who is engaged as a civil engineer building roads, airports, etc. Such work necessitates the purchase of heavy excavators etc. usually solely for a specific contract.

In the financial books of the company such items of plant are charged direct to the specific contract and on completion of the contract, the value of the plant is brought back at a valuation to the general plant account.

For tax purposes it would appear that such items of plant must be disallowed as a charge to the contract and dealt with on an initial and annual allowance basis.

The depreciation is so heavy on this type of plant and its market value at the end of the contract so little, that the normal tax method has proved to be not sufficient, with the result that tax is paid on profits which have not been realized.

Have any of your readers any experience of a similar case or whether the Revenue will allow the method used in the company's own financial accounts?

Yours faithfully,

London, W13. BUXTON, CASS & CO.

Professional Accountants in the Civil Service

SIR, - Mr G. McLachlan, B.COM., A.S.A.A., with his stimulating article on the scope of the profession in your issue of September 12th, poses some real problems in the development of the profession in our post-war society. There is one development in the Civil Service which he seems not to know, and which may be of interest to him and to the profession generally.

It will be recalled that in May of last year there was published a report of the Committee on the Organization, Structure and Remuneration of the Professional Accountant Class in the Civil Service. The Institution of Professional Civil Servants had, of course, given evidence to that Committee and, in the course of that evidence, had stressed the inadequate use that was made of the professional accountant and the valuable contribution that could

be made by the professional accountant were he transferred into the administrative class. As a result of that evidence, the Committee, in paragraph 39 of its report, says:

'The professional accountant class is a small one of recent creation and operates in a field which is not closely linked with the normal work of the Civil Service. We feel that as a result of these circumstances there is a danger of the potentialities of its members for work other than that falling wholly within the professional field being overlooked. It is disturbing that not a single place, so far as we have been able to discover, has been found in the principal grade for a man of professional accountant origin. This fact is the more striking when it is remembered, on the one hand, how considerable is the part played in business and industrial administration by men drawn from that source and, on the other, how substantial has been the contribution of the other professions and the executive class accountants to the administrative grade of principal and through it to the administrative class as a whole. It is significant too that, despite the vital part played by professional accountants in their capacity as cost accountants in the successful handling of contract work, no use has hitherto been made of them on the non-professional work of the contracts directorates.'

So far, the Treasury has given no indication of the steps that they will take to implement this part of the report, but the Institution is, of course, making this a major point in its activities on behalf of professional accountants in the Civil Service.

Yours faithfully,

STANLEY MAYNE,

General Secretary.

THE INSTITUTION OF
PROFESSIONAL CIVIL SERVANTS.

London, SW1.

The Accountant and the Farmer

SIR, - For some considerable time, but more particularly since the voluminous correspondence in your columns regarding replacement profit, I have wondered how deep a knowledge of economics is desirable in an accountant.

In your issue of July 18th last, Mr R. W. Smith, O.B.E., T.D., F.C.A., states in his third article on 'The

accountant and the farmer' (with reference to wealthy 'week-end' farmers):

'When the comment is made that they do it at the expense of the community because they have a tax rebate at the top rate, let us also remember that they provide employment, a market for equipment, and work for many other trades; they do get some measure of production from uneconomic land; thus, much of what they recover from the exchequer goes back indirectly.'

I should have thought that the first three things we are asked to remember only aggravate the expense to the community, and that only in so far as some measure of production results from farming uneconomic land or its farming has value from an experimental point of view could these efforts be described as economically desirable.

Yours faithfully,

Waltham Cross.

W. N. WALTER (Mrs).

[Mr Smith writes: I consider that the answer to your correspondent is fully covered in the two paragraphs of the article which follow immediately after the one which she criticizes. These paragraphs read as follows:

'It is undoubtedly true that but for high rates of taxation this type of farmer would largely disappear, but he is not the drone that many suppose him to be. The history of the agricultural industry gives many examples of successful experiments to improve the economics of farming which could only have been initiated by the owners of exceptional capital resources. If such activity succeeds in bringing poor land back into cultivation there is every reason for giving it the right sort of encouragement. There is quite obviously a useful field of activity here for the accountant whose guidance on costs and financial information is vitally necessary if such experiments are to be successful. The farmer who is operating at a satisfactory margin of profit might well observe with some justification that he does not need the services of an accountant to dissect his figures and to advise him how to improve his results, but where there are continual losses or a narrow margin of profit, a proper diagnosis of the state of financial health becomes essential.

'At a time when we are in need of the greatest possible production of home-grown food and when we have the astonishing paradox of the continual requisitioning of good farm land for other purposes, everything possible should be done to encourage those who are prepared to risk considerable losses in order to bring unproductive and marginal land back into full production.']

'Management Accounting: the Cash Forecast'

SIR, - I was very interested to read Mr Liddington's article on the above subject in your issue of September 19th. I agree wholeheartedly with his observations on the value of the 'cash forecast', especially during a period of expansion.

I thought, however, that other of your readers, not so well versed in the production of these forecasts as Mr Liddington, might be interested in the accompanying example (a U.S.A. importation) which I have

found to be quite ideal in practice for presentation to management.

In the same way as Mr Liddington suggested, a capital forecast is prepared and the outstanding balance used in the summary and, in addition of course, a detailed profit computation is also produced.

The balance sheet items in the column marked 'actual' are, of course, taken from the accounts at December 31st, 1952.

The forecast itself can be brought up to date monthly from the normal monthly accounts.

Example

CASH FORECAST

Twelve Months to December 31st, 1953

Working Capital	Actual 31/12/52 £	Estimated 31/12/53 £	Increase Decrease £
Cash	150,000	30,000	180,000
Debtors	250,000	300,000	50,000
Stocks	500,000	550,000	50,000
	900,000	820,000	80,000

Current Liabilities	£120,000	£160,000	£40,000
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SUMMARY OF AVAILABLE CASH

	£	£
Forecasted profit for year before taxes - per computation ..		200,000
Add Estimated depreciation to be charged		20,000
		180,000
Less Dividends		50,000
Net cash from Profits		130,000
Cash Balance at January 1st, 1953		150,000
Total Available		280,000
DEDUCT		
Debtors	50,000	
Stocks	50,000	
Current Liabilities	40,000	
Capital Expenditure - per Forecast	150,000	
Taxes payable during year ..	100,000	
		310,000
Overdraft at December 31st ..		30,000
Minimum Cash Requirements ..		70,000
Cash Deficit after providing for all taxes payable during year ..		£100,000

Yours faithfully,

C. L. METCALFE.

Higham Ferrers, Northants.

Receipts and Audit: Gardening Profits

SIR, - I should like the opinion of members of the profession on the following:

- Is it the duty of an auditor to a limited company to insist that all receipts above £2 produced to him should bear a stamp?
- If someone cultivates in the yard surrounding one's residence vegetables and flowers, and the business yields a certain income, is that income taxable?

Yours faithfully,

Nicosia, Cyprus.

A. JOANNIDES.

NOTES AND NOTICES

The Institute of Chartered Accountants in
England and Wales

TAXATION AND RESEARCH COMMITTEE

The seventy-first meeting of the Taxation and Research Committee was held at the Institute on Thursday, September 17th, 1953, at 2 p.m.

Present: Mr G. G. G. Goult (in the chair); Messrs K. W. Bevan, T. Fleming Birch, W. G. Campbell, P. F. Carpenter, J. Cartner, R. M. Chapman, T.D., D. A. Clarke, J. Clayton, R. W. Cox, W. G. Densem, R. B. Dixon, S. Dixon, W. P. Elliott, O.B.E., A. R. English, E. S. Foden, F. M. Gilliat, G. S. Hamilton, E. A. Harris, N. B. Hart, O.B.E., T.D., E. N. Macdonald, D.F.C., J. H. Mann, M.B.E., G. P. Morgan-Jones, R. A. Palmer, T.D., A. H. Proud, P. M. Rees, M.C., P. V. Roberts, C. N. Storey, H. F. Strachan, A. G. Thomas, W. F. Tidswell, G. L. C. Touche and G. H. Yarnell, with an Assistant Secretary of the Institute.

Standing Sub-Committees

Reports of standing sub-committees as below were received and discussed:

General Advisory Sub-Committee (including progress reports by three drafting sub-committees).

Management Accounting Sub-Committee (including progress reports by two drafting sub-committees).

Taxation Sub-Committee.

Ad hoc Sub-Committees

The chairmen of three special sub-committees reported progress.

Membership

The following appointments to membership of the committee for the year commencing October 1st, 1953, were reported:

Nominated by the Council: Messrs P. F. Carpenter, F.C.A., D. A. Clarke, LL.B., F.C.A., A. R. English, A.C.A., W. S. Hayes, A.C.A., G. L. C. Touche, B.A., F.C.A., and E. F. G. Whinney, M.A., F.C.A.

Nominated by District Societies' Committees: *Birmingham:* Messrs S. Kitchen, F.C.A., and W. F. Tidswell, A.C.A. *Bristol:* Messrs E. A. Harris, F.C.A., and P. V. Roberts, A.C.A. *East Anglia:* Messrs F. J. Eves, F.C.A., and G. G. G. Goult, F.C.A. *Hull:* Messrs N. B. Hart, O.B.E., T.D., M.A., LL.B., F.C.A., and H. F. Strachan, F.C.A. *Leeds:* G. N. Hunter, F.C.A., and R. Walton, F.C.A. *Leicester:* Messrs R. A. Palmer, T.D., M.A., F.C.A., and G. H. Thomas, A.C.A. *Liverpool:* Messrs E. N. Macdonald, D.F.C., F.C.A., and C. P. Turner, A.C.A. *London:* Messrs A. H. Cheney, A.C.A., W. G. Densem, F.C.A., A. P. Ravenhill, F.C.A., and E. K. Wright, M.A., F.C.A. *Manchester:* Messrs F. Carruthers, A.C.A., and F. M. Gilliat, F.C.A. *Northern:* Messrs R. M. Chapman, T.D., M.A., F.C.A., and D. P. Walton, A.C.A. *Nottingham:* J. B. Burnie, F.C.A., and R. W. Cox, F.C.A. *Sheffield:* Messrs S. C. Hand, F.C.A., and A. G. Thomas, F.C.A. *South Eastern:* Messrs W. P. Elliott, O.B.E., M.A., LL.B., A.C.A., and G. H. Yarnell, F.C.A. *South Wales:* R. P. Brown, A.C.A., and E. S. Foden, F.C.A.

The following members were co-opted for the year commencing October 1st, 1953:

Messrs R. D. R. Bateman, M.B.E., A.C.A., T. Fleming Birch, F.C.A., J. Cartner, A.C.A., J. Clayton, A.C.A., R. E.

Davis, A.C.A., S. Dixon, M.A., A.C.A., G. S. Hamilton, A.C.A., J. Latham, C.B.E., A.C.A., J. H. Mann, M.B.E., M.A., F.C.A., G. P. Morgan-Jones, M.A., F.C.A., R. J. Ogle, B.Sc., A.C.A., and A. H. Proud, A.C.A.

Appointments to Sub-Committees

The following members were appointed to standing sub-committees for the year commencing October 1st, 1953:

General Advisory Sub-Committee: Chairman and Vice-Chairman of the Taxation and Research Committee (*ex officio*); Messrs R. D. R. Bateman, T. Fleming Birch, R. P. Brown, J. B. Burnie, F. Carruthers, R. M. Chapman, J. Clayton, W. G. Densem, W. P. Elliott, F. J. Eves, G. S. Hamilton, E. A. Harris, G. N. Hunter, J. H. Mann, R. J. Ogle, H. F. Strachan, A. G. Thomas, G. H. Thomas, W. F. Tidswell, G. L. C. Touche, C. P. Turner, and E. F. G. Whinney.

Management Accounting Sub-Committee: Chairman and Vice-Chairman of the Taxation and Research Committee (*ex officio*); Messrs T. Fleming Birch, P. F. Carpenter, J. Cartner, A. H. Cheney, R. E. Davis, W. G. Densem, S. Dixon, G. G. G. Goult, W. S. Hayes, J. Latham, A. P. Ravenhill, P. V. Roberts, D. P. Walton, R. Walton and G. H. Yarnell. *Recommended for Co-option:* Messrs K. W. Bevan, J. B. L. Clark, J. B. Prentice and F. J. Weeks.

Taxation Sub-Committee: Chairman and Vice-Chairman of the Taxation and Research Committee (*ex officio*); Messrs D. A. Clarke, R. W. Cox, A. R. English, E. S. Foden, F. M. Gilliat, G. G. G. Goult, G. S. Hamilton, S. C. Hand, N. B. Hart, S. Kitchen, E. N. Macdonald, G. P. Morgan-Jones, R. A. Palmer, A. H. Proud and E. K. Wright. *Recommended for Co-option:* Messrs H. D. Bessemer and J. E. Talbot.

Chairman and Vice-Chairman

Mr G. S. Hamilton, A.C.A., and Mr T. Fleming Birch, F.C.A., were unanimously appointed Chairman and Vice-Chairman respectively of the Taxation and Research Committee for the year commencing October 1st, 1953.

Next Meeting

The next meeting was fixed provisionally for Thursday, October 15th, 1953, at 2 p.m.

Personal

MESSRS J. JACKSON SAINT & Co, Chartered Accountants, of 22 Lowther Street, Carlisle, and Workington, Penrith and Cockermouth, announce that Mr HERBERT JAMES RIGG, F.C.A., F.S.A.A., who has been a partner in the firm for the past thirty years, has retired as at June 30th, 1953. Arrangements have been made for the retention of Mr RIGG's services in a consultative and advisory capacity. The firm will be continued under the same style by the remaining partners.

MESSRS SMITH, MATHESON & KATER, Incorporated Accountants, announce that they have removed their offices from Whittington House, 20 College Hill, Cannon Street, London, EC4, to 2 Holmes Road, London, NW5. Telephone: Gulliver 1169. Branch offices will be maintained at 250 Harrow Road, London, W2 (Telephone: Cunningham 4191) and 3 Carlos Place, London, W1 (Telephone: Mayfair 1168).

MESSRS FRYER, SUTTON, MORRIS & Co, Chartered Accountants, of 12 Coleman Street, London, EC2, and 26-28 Cross Street, Reading, announce the retirement from the firm of Mr R. G. SUTTON, F.C.A., on September 30th, 1953. The practice will be carried on under the same name by the remaining partners.

Mr D. BROOKE, A.C.A., announces that he has commenced in practice at 99 High Street, Gosport Hants. Telephone: Gosport 8663.

MESSRS HODGSON, HARRIS & Co, Chartered Accountants, announce that they have admitted as a partner, from October 1st, 1953, Mr RONALD KIRK, who has been with the firm for many years.

Professional Note

Mr Robert Ralph Miller, A.S.A.A., F.C.I.S., has been appointed a director of Silenthloc Ltd as from September 24th, 1953. Mr Miller retains the secretaryship of the company.

Obituary

WILLIAM PRICE HALE, B.COM., F.C.A., A.S.A.A. We heard with great regret of the death on September 25th at his home at Leamington Spa of Mr William Price Hale, B.COM., F.C.A., A.S.A.A., a partner in the firm of Daffern & Co, Chartered Accountants, of Coventry.

Mr Hale's age was 49. He was admitted an associate of the Institute in 1928, elected a fellow in 1935, and was a past-chairman of the Coventry Branch of the Birmingham and District Society of Chartered Accountants. He became a member of the Society in 1932.

A prominent figure in local affairs, Mr Hale had been a member of Leamington Town Council and was chairman of the Council's Finance Committee from 1950 to 1952. He was a governor of Kingsley School (formerly Leamington High School for Girls) and he had been appointed a governor of Studley Agricultural College in 1951.

Mr Hale was a freemason of St John's Lodge, Coventry.

Chartered Accountant appointed Police Commander

Mr T. A. Furse, M.B.E., A.C.A., senior partner in the firm of Cox & Furse, Chartered Accountants, of Birmingham, has been appointed to the newly created post of Chief Commander of Birmingham's Special Constabulary. Mr Furse, who has been connected with the City's 'specials' branch for twenty-seven years, will be responsible for the administration of a force nearly 1,000 strong.

Long Service Awards

Mr W. T. Tanser, J.P., F.C.A., F.C.I.S., a partner in the firm of Taylor, Tanser & Co, Chartered Accountants, of Leicester, and chairman of the Executive Committee of the Ideal Benefit Society, presented long service awards to nine employees of the Society at a meeting held recently. This is the first occasion that such awards have been made by the

Society, the precedent being established to commemorate the Society's Diamond Jubilee Year. The recipients, whose length of service ranged between twenty-five and thirty-seven years, each received a clock.

Everest Expedition Leader addresses Incorporated Accountants

At a luncheon of the Incorporated Accountants' London and District Society held at the Connaught Rooms, WC2, last Monday, Col. Sir John Hunt, C.B.E., D.S.O., leader of the successful Everest expedition, emphasized to members and guests the value of organization far ahead in the recent successful attempt on Everest. He brought laughter from his audience with his stories of the difficulties of transporting large quantities of cash.

Sir John gave his opinion that the reason for their success which transcended everything was that all who had made the attempt before were in fact contributing to the final results. He emphasized the virtues that went to the building up of comradeship, and said that the members of the expedition were united by a great ideal.

Mr H. Basil Sheasby, M.B.E., F.C.A., F.S.A.A., chairman of the district society, presided: he was supported by Mrs Sheasby. A vote of thanks, delightfully proposed by Mr J. A. Jackson, F.S.A.A., immediate past-chairman, was passed with loud applause.

American Institute of Accountants

SIXTY-SIXTH ANNUAL MEETING

Mr Jay A. Phillips, of Houston, Texas, president of the American Institute of Accountants, has announced that Mr Meyer Kestnbaum, president of Hart, Schaffner & Marx and chairman of the Committee for Economic Development, has been selected as the principal speaker at the sixty-sixth annual meeting of the Institute to be held from October 18th to 22nd in Chicago.

Among the forty-eight speakers who will address more than 2,000 certified public accountants and wives are Mr T. Coleman Andrews, C.P.A., Commissioner of Internal Revenue, and Mr Walter J. MacDonald, president of the Canadian Institute of Chartered Accountants. Other speakers will participate in technical sessions dealing with direct costing, local practitioners' problems, state C.P.A. societies, taxation, accounting principles, auditing, budget preparation, and other problems of professional accountants.

Social events have been planned, including a reception, a musical comedy, and a dinner dance, with special tours and entertainment for wives of the C.P.A.s.

Third Inter-American Accounting Conference, 1954

The Third Inter-American Accounting Conference is to be held in São Paulo, Brazil, under the auspices of the Federação dos Contabilistas do Estado de São Paulo, from November 14th to 21st, 1954.

Tenth International Management Congress

The Tenth International Management Congress of the C.I.O.S. (Comité International de l'Organisation Scientifique) is to be held from February 19th to 24th, 1954, at São Paulo, Brazil, as part of the fourth centenary celebrations of the founding of that city.

The general theme of the Congress will be 'The leadership role of management' and reports on various aspects of this subject are being submitted for discussion by national committees of eight countries, including Belgium, Netherlands, Switzerland, Italy, Sweden, France, U.S.A., and Great Britain.

The report from Great Britain will deal with 'The application of modern management technique to the smaller enterprise'.

The Value of Management Accountancy

'Millions of pounds' worth of labour effort, materials and resources are wasted daily in this country. Much of this waste could be eradicated if only the causes of inefficiency could be located and removed. Management accountancy can do much towards achieving this.'

So said Mr Stanley J. D. Berger, M.C., F.C.I.S., director and secretary of the Institute of Cost and Works Accountants, in a paper on 'Recent developments in management accountancy' which he presented at the annual conference of the Chartered Institute of Secretaries at Bournemouth on Friday of last week.

Mr Berger made the point that increased prosperity in Britain can only be brought about by management which, however, 'should pay much closer attention to management accountancy'. He said:

'In an industrial society it is expected that the general standard of life will be continually improved. This is not a natural law. It can come about only if all give their best, but the prime responsibility rests squarely on management. Management is the only group whose actions can be decisive in bringing about the desired increase in prosperity. I believe there is an urgent need for inculcating greater cost consciousness in the minds of workers and management alike.'

Report on the Census of Production for 1950

Volume 12¹ of the report on the census of production for 1950 has now been published. The volume covers the gas supply industry, electricity-supply industry and water undertakings. Further volumes will be published at short intervals.

¹ Report on the Census of Production for 1950. Vol. 12: Gas, Electricity and Water. H.M.S.O. 1s 6d net (by post 1½d extra).

Assistant Official Receiver Appointments

The Board of Trade have appointed Mr W. Scaife to be Assistant Official Receiver for the Bankruptcy District of the County Courts of Northampton, Bedford and Luton; the County Courts of Ipswich, Bury St Edmunds, and Colchester; and the County Courts of Cambridge, Peterborough and King's Lynn. This appointment takes effect from September 14th.

Mr George Frederick Morris, A.S.A.A., has been appointed an Assistant Official Receiver in the Bankruptcy (High Court) Department, and Mr Arthur Aaron Walter an Assistant Official Receiver in the Companies (Winding Up) Department. These appointments take effect from September 21st, 1953.

Edinburgh Chartered Accountants' Golf Club

The Edinburgh Chartered Accountants' Golf Club held their autumn meeting over the Luffness course on September 23rd in ideal weather.

A scratch competition and a bogey competition were run separately, the Scratch Medal being won by Mr D. A. B. Cunningham with a score of 75. In the bogey competition no less than three players, Mr D. A. Beaton, Mr M. W. Taylor and Mr A. Fotheringham, returned scores of 7 up and will accordingly play off to decide the custody of the Cup presented by the former Society of Accountants in Edinburgh.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held next week:

Monday, 1.0 p.m. (at the Library): Lunchtime discussion on examination questions.

5.30 p.m. (at the Institute): Lecture on 'Investment in assurance' by Mr E. P. Hatchett, F.I.A., Deputy Controller, Prudential Assurance Co.

Tuesday, 1.0 p.m. (at the Library): Lunchtime discussion on examination questions.

5.30 p.m. (at the Institute) (limited number): Demonstration of Kalamazoo accounting.

Wednesday, 1.0 p.m. (at the Library): Lunchtime discussion on examination questions.

4.0 p.m. (in Guildhall): President's Meeting. The Lord Mayor will be present. Address by Marshal of the R.A.F. Sir John Slessor, G.C.B., D.S.O., M.C.

Thursday, 1.0 p.m. (at the Library): Lunchtime discussion on examination questions.

5.30 p.m. (at the Institute): Demonstration debate.

Friday, 1.0 p.m. (at the Library): Lunchtime discussion on examination questions.

5.15 p.m. (at the Institute): Introductory course lectures on (1) 'The fundamentals of accountancy'; (2) 'The law and its branches'.

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Office Management Association

The Bristol and West of England Branch of the Office Management Association is holding a one-day conference at *The Grand Hotel*, Bristol, on October 27th, when Mr Geoffrey J. Mill, Assistant Comptroller of J. Lyons & Co Ltd, will give a paper on 'The filing and indexing of documents'. In addition, there is to be an exhibition of office equipment relating to the subject.

Further information concerning the conference may be obtained from the secretary of the branch, Mr A. J. Knight-Chaffey, of John Swain Ltd, The Grove, Bristol.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 6TH, 1928

Extract from a letter to the Editor.

The Companies Act, 1928

Want of space forbids calling the attention of your readers to many other absurdities in the new Act, but one is inclined to say with Hamlet, "Thus bad begins, but worse remains behind": for although the last section of the Act provides for its coming into operation on such day as His Majesty's Privy Council may appoint, I am informed by the Comptroller of the Companies Department of Great George Street, Westminster, under date the 27th September, that out of the 118 sections, 117 sections will not come into operation at all!!!

The Comptroller quotes a statement made by the Lord Chancellor on the Committee stage of the Bill, two days before it was passed, to the effect that "there shall be no attempt to bring the Bill as a whole into operation until consolidating legislation has been passed through both Houses of Parliament" some time during next year!!!

Surely our legislators—in this year of grace 1928 have surpassed all previous Parliamentary records in legislative fatuity.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 5TH, 1878

A Note in Passing

The Audit of Railway Accounts

It is not often that a more sensible and business like letter than that which recently appeared in the city article of the *Times* from the pen of "H. N. C." is allowed to figure in the columns of that eminent journal. Referring to Messrs. Burnand's annual tables of railway averages, this writer remarks that "it is

impossible to rise from the examination of the accounts of our railways without a strong desire to see some efficient and independent audit established to contro. them. Nothing is more unsubstantial or delusive or could be more unsatisfactory than the present system. Gentlemen are elected as auditors who are merchants, or shipowners, soldiers, sailors, or lawyers, anything in fact rather than professional accountants." "H. N. C." then goes on to point out that "these amateur critics of the companies' financial operations are virtually nominees of the board whose doings they are to criticise, and are supposed to control; while the payment for the audit is so utterly inadequate as to suggest the perfunctory and superficial nature of the work that is expected." What we want, it is asserted, is "a professional independent audit, with the power to enforce it." We have so frequently sought to inculcate this truth, that we need scarcely say that its new exposition commands our entire approval; but we may congratulate our readers upon the appearance of so wise and judicious a letter, especially as it adorns a column which has lately had in it an unusual amount of calumnies upon professional accountants.

Overseas Economic Survey

ECONOMIC AND COMMERCIAL CONDITIONS IN IRAQ

A survey of economic and commercial conditions in Iraq has been published by Her Majesty's Stationery Office, price 2s (post free 2s 2d). This is the latest volume in the series of Overseas Economic Surveys issued by the Commercial Relations & Exports Department of the Board of Trade.

Our Contemporaries

- THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (August.)
- LOCAL GOVERNMENT FINANCE. (September.)
- THE LAW SOCIETY'S GAZETTE. (September.)
- THE COST ACCOUNTANT. (September.)
- THE INDIAN ACCOUNTANT. (New Delhi.) (June.)
- THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (August.)
- THE ACCOUNTANTS' JOURNAL. (Manila.) (June.) 'Record keeping for small drug store', by Eriberto S. Pineda.
- THE CHARTERED ACCOUNTANT IN AUSTRALIA. (Sydney.) (July.) 'A review of auditing procedures', by R. A. Irish, F.C.A.(AUST.).
- THE JOURNAL OF ACCOUNTANCY. (New York.) (September.) 'Problems encountered by accountant when expressing an opinion on cash-basis statements', by Gordon M. Hill, C.P.A.
- THE SECRETARY. (September.)
- THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (July.) 'University education in accounting and management', by Professor Mary E. Murphy. 'Accountants and solicitors', by E. H. Coghill, LL.M.

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The Accountant

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OCTOBER 10TH, 1953

VOL. CXXIX. NO. 4112

ESTATE DUTY DEDUCTIONS FOR ANNUITIES

CONTENTS

Leading Articles	Page
Estate Duty: Deductions for Annuities.	401
The Finance Act, 1953 - X	402
Special Articles	
Recommendations on Accounting Theory by W. T. Baxter, Professor of Accounting, University of London	405
The Inspector of Taxes Interrogates: The Blacksmith at Sleepy Hollow by Wilfred Tullett, F.S.A.A.	411
Weekly Notes	
The Institute's Autumnal Meeting - Production Control Report - Chartered Accountant to be Chief Executive of C.D.C. - Exchequer Stock Success - Higher Gold Reserves - Timing Purchase Tax Reductions	412
Finance and Commerce	414
Reviews	417
Correspondence	
Accounting for Goods in Transit - Mechanized Bank Pass-books - Stamps on Receipts - 'Management Accounting: the Cash Forecast' - 'Replacement Profit is False: Mr Briscoe's Rejoinder	418
Notes and Notices	
Personal - Professional Notes - Revenue Paper: Michaelmas Sittings, 1953 - The Chartered Accountant Students' Society of London - The Sheffield and District Chartered Accountant Students' Society - South Wales and Monmouthshire Chartered Accountants Golfing Society - Incorporated Accountants' Students' Society of London - The Institute of Actuaries - Our Contemporaries - Twenty-five Years Ago - Seventy-five Years Ago	422

WHEN a fund is held in trust to pay an annuity to one person and the balance of the income to another during the latter's life, estate duty law is such as to cause a wholly disproportionate burden when the life-tenant dies. Of course, if the annuity thereupon ceases and the whole fund passes to entirely different persons there is no special hardship. However, there are many cases where the change in the beneficial interests in the fund as a whole are slight, but duty has to be paid on the whole fund or only a little less.

Where the annuitant himself becomes entitled to all the income of the fund, the annuity ceasing, he suffers estate duty on the whole of the fund. Assume a fund worth £10,000 producing an income of £500 a year, which is held in trust to pay to A. an annuity of £450, the balance to B., with a provision that on B.'s death A. is to have the whole income for life. When B. dies, A. is only £50 a year better off (before duty) and may survive B. by only a short time. Nevertheless, the whole £10,000 is aggregated with B.'s estate and bears duty at the appropriate rate. If this is 80 per cent, A.'s income is actually reduced by the death from £450 to £100.

Before 1952 it was the practice to exempt the slice of the fund necessary to produce the annuity, provided it could be shown that the annuity might have determined in B.'s lifetime and that he would then have received the full income. The grounds on which this not very logical distinction rested need not be gone into now because the distinction was rejected in *Re Lambton's Marriage Settlement* ([1952] 31 A.T.C. 300). Not only does the whole fund pass, as distinct from the slice necessary to produce the life-tenant's share of the income, but at the same time no deduction is made in respect of the burden on the fund represented by the annuity.

So much for the cases where the annuity ceases on B.'s death. Suppose now that on B.'s death the annuity of £450 continues to be payable, the balance of the trust income formerly paid to B. now being paid to C. Before 1952 it was not the practice to treat the whole fund as passing under the Finance Act, 1894, Section 1. Instead, duty was claimed under Section 2 (1) (b) in respect of

'property in which the deceased or any other person had an interest ceasing on the death of the deceased, to the extent to which a benefit accrues or arises by the cesser of such interest'.

The claim was thus confined to the slice of the fund producing the income enjoyed by B. The practice was expressed in the converse way as giving a deduction for the slice necessary to

produce the annuity. This practice applied even where the annuitant took B.'s former life interest; it was necessary only that the annuity should continue as such.

After the *Lambton* decision the Inland Revenue discontinued this practice except, as a concession, in cases where both the following conditions were satisfied:

- (a) the settlement had not been created by the deceased life-tenant himself; and
- (b) the continuing annuity and the life interest were created by the same disposition.

As a result of another case decided in 1952, *Re Longbourne* ([1952] 31 A.T.C. 438), even this concession has been withdrawn. In all cases the

whole fund is treated as passing. On the other hand, the Inland Revenue allow a deduction equal to the actuarial value of the continuing annuity. It follows that if the annuitant is very old, the deduction may be negligible, and in any case it must necessarily be less than the slice necessary to produce the annuity.

In *Re Longbourne* the Inland Revenue had at first argued that there should be no deduction at all for the continuing annuity. Once it is established that the whole of the settled fund passes under Section 1, there is a good deal of force in that argument. However, the Inland Revenue conceded at the trial that the actuarial value of the annuity should be deducted and the point was neither argued nor judicially decided.

THE FINANCE ACT, 1953—X

Section 26: Unilateral Relief Without Limit

SECTION 26 (1) removes the limit on unilateral double tax relief by enacting that the Income Tax Act, 1952, Section 348 (2), proviso (a), shall cease to have effect. As regards income-tax, the change operates on income by reference to which the income-tax is charged for 1953-54 or a later year. For profits tax and excess profits levy the new rule applies to the same income. Income which is not chargeable to income-tax but which is charged to profits tax or excess profits levy also qualifies for full relief if it arises in a chargeable accounting period which begins after March 31st, 1953. Where a chargeable accounting period overlaps March 31st, 1953, the income arising after that date also qualifies. It is arrived at by a time basis apportionment of the profit for the whole chargeable accounting period.

Section 26 (2): Deduction of Unrelieved Foreign Tax

Section 26 (2) assimilates unilateral relief to treaty relief in another respect. Unrelieved foreign tax is allowed as a deduction in computing profit for profits tax purposes. Where treaty relief applies, the unrelieved tax is deducted in arriving at the profit for the period in which the doubly taxed income arose. That is the theoretical position at any rate. In the case of unilateral relief, the unrelieved tax has hitherto been deductible in the next subsequent period. (Income

Tax Act, 1952, Seventeenth Schedule, paragraph 2.) Section 26 (2) of the Finance Act, 1953, now repeals that paragraph in relation to income covered by Section 26 (1).

Section 26 (3) gives the usual authority to make the necessary additional assessments and repayments which follow from the provisions of the section.

Section 27: Excess Profits Levy

Section 27 (1) terminates excess profits levy as at December 31st, 1953, limiting the period of charge to exactly two years. Never in the whole history of taxation has so much legislation been passed for so limited a purpose. Section 27 (1) (a) makes a necessary verbal amendment to the Finance Act, 1952, Section 45 (5).

Section 27 (1) (b): Spreading of Expenditure

Section 27 (1) (b) amends the provisions for the spreading of abnormal expenditure (Finance Act, 1952, Ninth Schedule, paragraph 10). Expenditure incurred after 1954 is not to be available for spreading back into the period of charge. This amendment incidentally makes it clear that paragraph 10 is not intended to be confined to expenditure incurred during the period of charge, so the paragraph is not exclusively for the benefit of the Inland Revenue.

Section 27 (2): Investment Companies

Section 27 (2) amends the Finance Act, 1952,

ection 52. This section was designed to give limited relief to an investment company in respect of dividends received by it from companies which had already borne excess profits levy. An investment company is defined as one whose functions consist wholly or mainly in the holding of investments.

An investment company which was a member of a group was excluded from the relief unless all its fellow members were also investment companies. Thus, if there was one small and unimportant member of the group which was not an investment company, but all the other members were, they were deprived of the relief. Section 27 (2) (c) extends the benefit of the relief to a group if

'substantially the whole of the functions of a single body corporate which combined all the functions of the members of the group would consist in the holding of investments'.

However, Section 52 of the 1952 Act will not apply to such a group unless the principal member so elects, by sending written notice to the Inland Revenue before the end of 1954 – or later if the Inland Revenue permit. If the election is made, it will apply to all the group members which are investment companies.

Although Section 52 is a relieving section, it may have the result of increasing the net liability in certain circumstances. As this was not intended, Section 27 (2) of the 1953 Act gives an option to exclude Section 52, an option which likewise has to be exercised by the end of 1954. In the case of a group, it is the principal member which exercises the option, and this covers all its members; the principal member cannot pick and choose.

Where the principal member of a group exercises an option under Section 27 and its liability is increased as a result, it is not allowed to recover more levy from the other members on that account.

Section 27 (3): Minerals, Additional Output

Section 56 of the Finance Act, 1952, provides special relief from excess profits levy to a company which increases its physical output of metal, oil or asbestos from natural sources, provided that the increased output in relation to the standard period is certified by the Treasury to be essential in the national interest. Section 27 (3)

of the 1953 Act extends the section to all minerals.

The application of Section 56 is optional. Notice had to be given, originally, within twelve months after the end of the first chargeable accounting period. Now, by Section 27 (3) of the 1953 Act the latest date for election is the end of 1954 – or later, if the Inland Revenue allow.

Section 28: Distributions by Iron and Steel Companies

Section 28 is of limited application. It is designed to facilitate the disposal to private enterprise of iron and steel companies at present nationalized. Section 18 of the Iron and Steel Act, 1953, set up the Iron and Steel Holding and Realization Agency to dispose of the assets or shares of the companies concerned. Section 19 gave the Agency power, *inter alia*, to reorganize or wind up the companies. Some of the steps taken by the Agency may involve a distribution of profit which would give rise to increased liability to profits tax or excess profits levy. This might hamper the process of sale. Accordingly, Section 28 provides that in a limited class of case the distribution is to be disregarded for profits tax while for excess profits levy the distribution is to be treated as a repayment of share capital by the paying company. If the company receiving the distribution is also within the section, it can elect to exclude the distribution from its franked investment income for profits tax. The election has to be made within three months after the Treasury certificate, or longer if the Inland Revenue allow.

Where the company is a member of a group to which group treatment is applied, the election is exercisable by the company and the principal member of the group jointly.

In the case of excess profits levy, the receiving company will be deemed to receive the distribution as though it were the proceeds of an issue of shares.

The conditions to be fulfilled before the section can apply are as follows:

- (a) The Treasury must certify the distribution, which they can do only if they are satisfied that the distribution

'is made for the purpose of facilitating the performance by the Realization Agency of its functions in returning any undertaking to private ownership'. (Section 28 (3)).

(b) The company is wholly owned by the Agency, i.e. the Agency owns directly or indirectly the whole of the company's ordinary share capital. Ordinary share capital is defined as all issued capital other than capital giving the right to a fixed rate of dividend. (Section 28 (5)).

Notional Distributions under Finance Act, 1951, Section 31

Besides applying to distributions in the ordinary sense, Section 28 applies to the notional distributions provided for by the Finance Act, 1951, Section 31, i.e. where there is an issue of bonus shares combined with a repayment of capital. (Section 28 (2)).

Section 29: Isles of Scilly

Section 29 (1) directs that the Isles of Scilly shall be deemed to be in the income-tax division of West Penwith, in Cornwall, for the purposes of income-tax and profits tax. The Isles are thus brought into the scope of those taxes for the first time. The Inland Revenue's general power to transfer land from one division to another is not affected.

It is interesting to consider how the Isles escaped this fate in the first place. The Land Tax Act, 1797, imposed a specific sum of land tax to be raised 'within the Kingdom of Great Britain', which, of course, included the islands. However, the Act proceeded to apportion the total sum among the various regions set out in the Act, one of these regions being the county of Cornwall, but no mention was made of the Isles of Scilly. Not being part of Cornwall, they automatically escaped the land tax.

The same Act provided for the further subdivision of the country for the purpose of the land tax, and these land tax 'divisions' corresponded roughly to the ancient hundreds. The division nearest to the Isles of Scilly is that of West Penwith. Commissioners were appointed for each division and machinery was provided for the assessment and collection of the tax on a divisional basis.

When income-tax was first imposed the administration was entrusted to Commissioners to be appointed for the same divisions as existed for the land tax. The power of the Commissioners for West Penwith did not extend to the islands and,

accordingly, there was no machinery for assessing income-tax there. When profits tax was imposed, it provided for assessment by the General Commissioners for each division, so again the Scilly Isles escaped. There was, of course, nothing to prevent a taxpayer in the Isles of Scilly from electing to be assessed by the Special Commissioners, which would have got over the difficulty, but not unnaturally this power of election lay dormant. Some offices exercised in the islands are located on the mainland for tax purposes and, accordingly, their unfortunate holders have missed the tax exemptions enjoyed by their fellow islanders.

Transitional Provisions

No charge to income-tax is to be made under Section 29 for a year earlier than 1954-55. For profits tax, liability begins on April 1st, 1954; accounting periods overlapping that date are to be split (Section 29 (2)).

Section 29 (3) contains transitional provisions in the case of trades, professions, employments and vocations. It is to be remembered that although income-tax is imposed anew each year, that year does not operate in a vacuum. As regards reliefs and allowances, it is affected by what happened in previous years. Accordingly, the subsection requires it to be assumed, for the purposes of income-tax reliefs and allowances, that income-tax was duly charged in pre-1954-55 years. This means *pro forma* computations for those years. These may throw up amounts of loss and capital allowances to be brought forward to 1954-55. They cannot of themselves give rise to balancing charges, since the subsection is concerned only with reliefs and allowances. For the purposes of the *pro forma* computations it is to be assumed that initial allowances did not exist before 1954-55.

Section 29 (3) also provides that profits tax is to be computed, so far as it depends on capital allowances and charges, on the assumption that assessments had been made on the profits of the earlier periods. As the profits tax allowances are normally based on those computed for income-tax, it would seem equally clear that no balancing charge can be included in a profits tax computation in respect of notional allowances for periods earlier than April 1954.

(To be continued.)

RECOMMENDATIONS ON ACCOUNTING THEORY

by W. T. BAXTER

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I. The Need for a Review

AT the end of a talk on the present state of accounting theory,¹ I said that societies of accountants should not, in my view, make statements on matters of 'intellectual principle'. There was not time in that talk to set out the pros and cons of the matter in full, and I should like to do so now.

What I had in mind was, of course, the 'recommendations' or 'bulletins' issued by (in particular) The Institute of Chartered Accountants in England and Wales, and the American Institute of Accountants.² These recommendations have now been coming out for just over a dozen years, and add up to a considerable volume of print on a wide range of subjects. Their influence on accounting is great and growing. Accordingly, some review of this development seems not out of place. Many accountants – even if they do not share my feeling that the recommendations have already gone too far – may perhaps like to discuss how much further the process of recommending can, with propriety, go. Where is the limit? Are we to look forward to the day when every aspect of accounting has been dealt with? Should our goal be – as high authority has hinted apropos the question of price levels – super-recommendations by a massed assembly representing *all* the professional bodies?

Another reason for airing the matter is this. Many accounting societies have so far made few or no recommendations. Their members may well have some feeling that the omission may seem to betoken a lack of zeal and public spirit. They should recognize that a policy of official silence has in fact much in its favour. However, this most emphatically does *not* mean that inertia should be lightly excused, or that accounting societies need take no part in furthering knowledge. On the contrary, they should do everything in their power to encourage education, debate and research. For instance, they could give great help by setting up much-needed scholarships (perhaps to be awarded on the results of the

professional Intermediate examinations) to enable their brilliant young men to study further.

II. Scope of the Review

If our review of the recommendations is to be profitable, we must restrict its scope to what seems the most important question – whether an accounting society is wise to say what is 'right' or 'true' in matters of theory. By 'theory' is meant the attempt to explain, in terms of fundamentals, what accounting is and what it tries to do; accounting is thus assumed to be a branch of knowledge, like law or physics, with basic principles that are worth exploring.³

Recommendations can, in fact, deal with many things beside theory. They may instead be concerned with *policy*. A professional body sometimes advises its members to follow a common policy on questions that have little to do with the intellectual content of its members' work. For instance, it may make statements on ethics, fees, registration by the State, and so forth. Such types of advice should be judged by standards quite different from those useful in our present review; if, for example, a body of architects advises its members to charge a uniform fee, we judge that issue in the light of our views on the benefits of otherwise of economic monopoly.

Similarly, our review is not concerned with narrow problems of *technique*. If a recommendation freely admits that such-and-such fundamental principles are taken for granted, and merely seeks the best way to apply them, there is not much cause for serious criticism.

It might be thought that the same applies to *definition* and *uniform practice*. To some extent these can indeed be handled in ways that avoid theory – in which case they, too, fall outside our discussion. But such matters infringe on theory more often than might be supposed; and so we must give a little space to them.

¹ In my first article, I used the phrase 'matters of intellectual policy'. This may sound a trifle pompous. Possible alternatives are 'scientific knowledge' or 'scientific laws', but these are apt to suggest work among test-tubes – unless we call accounting one of the social sciences. Again, 'abstract knowledge', 'learning', and 'scholarly research' may sound best suited to the Faculty of Arts. So 'theory' seems the neatest word to cover what we have in mind. But the name is of small importance so long as we all know what is at issue.

² 'Accounting principles: the conflict in current theory', *The Accountant*, June 13th, 1953.

³ Conveniently enough, both issues are summarized in *Accounting Research* (January 1953) by E. L. Kohler.

A recommendation can often be looked on either as theory or what we may call *working regulations*. By the latter is meant a framework of rules designed to make an institution run smoothly (e.g. the Football Association's rules of play, or the Companies Act). The test of a good piece of theorizing, surely, is that it makes us think more clearly. The test of a good law is that the institution works well; it is not educational but practical.

Consider, for instance, the problem of how assets should be valued. When a writer on accounting tries to show us the best method of valuation, he probably builds up his case by discussing and judging various theories. When a law says that company accounts must show the values in such-and-such ways, it does not analyse all the theories and then tell us which satisfies logic. The framers of the law must indeed have some theory in mind; but they treat it merely as the basis for a promising experiment – to be scrapped if it fails – and not as a truth to be endorsed and broadcast.¹

Our views on recommendations may thus depend on whether we look on them as law or research. In many cases their form and tenor suggest that an element of both is intended. Whatever the intentions of their framers, there can be little doubt that they have been accepted by wide audiences as official pronouncements on general theory.

Our review is thus confined to one aspect of the recommendations. Moreover, it will probably keep more closely to the point if it omits from its scope all discussion of whether individual recommendations on theory have in fact been right or wrong. What is said here is thus not meant as criticism of any recommendation's content. Indeed, we may for our present purpose agree that every word in every recommendation has been entirely true; and yet we may think that a policy of making recommendations on theory will, in the long run, be disastrous.

III. Origins of Recommendations

I should like to admit frankly that when first an official statement on accounting principles was

¹ Similarly, Parliament is sometimes forced to choose between scientific theories, e.g. public health law assumes that the views of Pasteur and Fleming are right. But the choice is made merely so that hopeful lines of development can be tried without delay, and should not imply that the official seal of approval has been put on any theory. Otherwise legislators would be exceeding their function, and attacking our freedom of thought.

Again, if an Act of Parliament includes definitions, these are not meant as revelations of abstract knowledge but only as tools for making effective the particular set of rules. A judge may even hold that the definitions in one Act do not apply in the context of another Act on a dissimilar subject.

published, I was enthusiastic about it. My doubts have arisen since, on seeing how the new venture has developed.

Looking back at that statement, one remembers certain features that have unfortunately not usually been copied since. It came out in 1938, and was called *A Statement on Accounting Principles*; it was published by the American Institute, to whose members it was commended in a foreword; but it bore the names of its three distinguished authors – Messrs Sanders, Hatfield and Moore – who had been formed into an independent committee to do this bit of writing (and who were not even members of the Institute). Under such an arrangement, the Institute was plainly doing its duty to foster discussion and yet was itself not taking sides. That kind of procedure goes far to disarm criticism.

Since this first venture, the trend has been for the statements to be drafted by committees much more closely linked with the sponsoring body; and for the latter to back the conclusions in a much firmer way. The American Institute set up for instance its own committee on Accounting Procedure to issue research bulletins. Bulletin No. 1 explained the aims and methods. It stressed the growth of corporate organization, and therefore the social importance of good accounts; and it noted that there 'has been a demand for a larger degree of uniformity in accounting'. The committee stated that its rules were not intended to have retroactive effect; also they may be subject to exception, but 'the burden of proof is upon the accountant clearly to bring out the exceptional procedure and the circumstances which render it necessary'.

This has perhaps a somewhat mandatory ring. But the American bulletins have in fact used two safeguards that make their tenor less authoritarian: the members of the drafting committee are named in recommendations, and any member who disagrees with the majority is entitled to have the fact of his dissent recorded in the document. One American committee has had the courage to say bluntly that an earlier pronouncement by itself now seems wrong.²

The Institute of Chartered Accountants in England and Wales announced its first recommendation as follows:

'The Council has requested the Taxation and Financial Relations Committee to consider and make recommendations to it on certain aspects of the accounts of companies and it is proposed from

² *Accounting Problems Arising from Devaluation of Foreign Currencies*. Research Department, American Institute of Accountants (1949).

time to time to publish approved recommendations for the information of members. It is, of course, a matter for each individual member to consider his responsibility in regard to accounts presented by directors, but it is hoped that the recommendations to be made will be helpful to members in advising directors as to what is regarded as the best practice.¹

These words are as modest and cautious as anyone could wish. They show how undogmatic the original plan was; and they suggest that the Council did not foresee the eventual scope of the recommendations or the deference with which they would be treated.

IV. The Case for Recommendations

It would be ungenerous not to set down the good that has been done by the recommendations. Their benefits have obviously been great.

As was pointed out in Section II above, statements by a professional body may take several forms; notably they may either suggest working rules or propound abstract principles. The recommendations have been of most service when they fell into the first group – as, for instance, when they have dealt with the content of company accounts. What we may call extra-parliamentary control – such as the rules of the Stock Exchange and these recommendations – can often be a useful supplement to statutes, particularly at the experimental stage; and the early recommendations did much to prepare the way for, e.g. Britain's 1948 Companies Act and, indeed, have in part been absorbed into that Act.

The recommendations may thus serve as private forerunners and reinforcements to the law. Their record in this work has on the whole been excellent – notably in procuring full, frank and consistent accounts. The auditor has special cause to be thankful for them; the task of persuading his clients to comply with high standards in published accounts is sometimes delicate, and the recommendations have greatly strengthened his hand.

Though the recommendations have been less successful in the realm of theory, they have yielded some benefits. As each recommendation appears, undoubtedly it gives rise at first to discussion and interest. Again, many of us used to deplore the fact that our profession's leaders never could spare time to write about their work; whatever the faults of the new system, it does prompt these men to tell us a great deal about what they think and do.

We thus have cause to feel grateful to the

drafters of the recommendations; and this review should on no account be construed as an attack on them. Obviously they have devoted a vast amount of time and care to their task, and have been prompted by a high sense of public service. If any harm should in the end come from their work, the fault is not theirs; blame will attach rather to the disciples who have accepted their teaching all too eagerly, and have invested it with an *ex cathedra* quality that could not have been foreseen.

It is not unusual in human affairs for a thing to be started with the best intentions, and yet to develop some aspects that threaten harm. My plea is that we should now review the good and bad alike, and see whether we cannot guide future growth in directions that are wholly good.

The recommendations' benefits are clear and present. Their ill results are hypothetical and will show – if at all – in the future. Moreover, these ill results are suggested by experience in other fields of study; and conceivably accounting differs in nature and difficulty from these. If accounting is unlike other subjects, or is mere child's play, then the arguments that follow are greatly weakened. But I see no reason to think that it is different.

V. The Case against Recommendations

The case against official recommendations on theory is threefold. First, men do not always become better at research when they don the mantle of authority. Second, if authority takes direct part in the pursuit of truth, it may hinder rather than help. Third – and most important – there are no sure signs by which truth can be recognized.

The first objection need not keep us long; admittedly it is not always a strong factor. To judge from experience in most fields of learning, men tend to do their best research when left to their own devices. There are many exceptions; a large team of chemists may be the quickest means of dealing with a laborious task, and a government committee may be admirable at sifting evidence and assessing opinion. In general, however, thinkers are apt to be hampered by close connection with a team or with a powerful institution. The link may bring a need for diplomacy or compromise; policy may be more urgent than truth. Thus the authorities of the Church could not deal fairly with the ideas of Copernicus and Galileo because these ideas clashed with official pronouncements of the past.

The second objection is much weightier. It is

¹ *The Accountant*, December 12th, 1942, page 354.

an indirect way of saying that freedom is necessary for progress. Man must be able to think freely, so that the stream of new ideas can flow strongly; and men must be able to discuss and experiment freely, so that these ideas can be criticized and tested with the utmost rigour. If authority intervenes – by joining in the quest itself, or by giving its *imprimatur* to some favourite idea, or by making crude attacks on personal liberty – the chances of progress are lessened. Men cease to think so freely – whether from awe, fear or belief that others can do the job better; and therefore the stream of new ideas dries up. They cease to discuss and experiment so freely; and therefore criticism loses its edge, and ideas are not put to a stern test.

This train of reasoning leads us to the third objection. Under strong criticism, many ideas soon prove false. Others satisfy all immediate tests, yet we ought still to accept them as tentative only, for they, too, are likely to show flaws as the years go by. Even after an idea has survived triumphantly for centuries, some critic may shatter it, or else show it to be capable of improvement. Einstein was able both to generalize Newton's theory and to correct it for conditions that had not previously been considered. No human being – however distinguished – can certainly foretell which idea will become a casualty. As Bacon tells us: 'Truth is the daughter, not of Authority, but of Time.'

The root of the matter, surely, is man's fallibility. Only where we believe a statement to have divine inspiration can we treat it as beyond all doubt.

It may be helpful to ask why learned bodies do not in general issue official solutions to questions puzzling their members. Why, for instance, does the Royal Society not organize a team of Fellows to solve this or that intractable problem of physics? All three objections suggested above are relevant to the answer. The Fellows may perhaps feel that they can work better in isolation. Their training in science has made them sceptical and more apt to test and attack than to defend ideas. They have learnt from the experiences of centuries that their 'laws' can never be regarded as final. If the Society gave official approval to theories, its members would probably soon be rent by a schism between an orthodox and a dissenting party; and sooner or later (the chances are) the Society would be proved wrong, and would be forced to utter an embarrassing recantation.

Similarly, official recommendations by an

institute of engineers would have to be framed with some care. Assume, for instance, that its members were advised to build bridges in a uniform way, based on the best current knowledge. For a while, standards might well be raised. But research would in time point to better bridges; non-conformist bodies of engineers would be free to build these, while the orthodox would be denied the fruits of advancing science.

Exactly what do we mean by 'authority' in this section? A wide sweep should be given to the word; we wish it to include all forces that can give weight to some ideas at the expense of others. Privilege is bad for ideas as for men; only if they can jostle one another in a democratic way is the best likely to reach the top.

Authority may thus rest (at one end of the scale) on prestige only, and (at the other) on power. Occasionally the sheer brilliance of a single scholar can cause his views to be treated with undue deference. A close-knit school of able thinkers may well dominate opinion to an unhealthy point – even if they lack organization and can impose no sanctions. The harm becomes vastly more formidable when the authority controls education, or can mould adult opinion. It reaches its worst when authority has total power. In its extreme forms, we are all agreed that it is evil; and we should continue to think so whether or not the views that it promulgates happen to seem true or false.

Happily, we are here concerned with authority only in its mildest and most benevolent form. Nevertheless, we may wonder whether, in the realm of mental freedom, even a slight degree of control must not lead to harm.

VI. Authority and Accounting Principles

With our recommendations, the basis of authority is, of course, mainly the prestige of the bodies concerned. But this is of a high order. We all know in what regard and respect such a body is held by the bulk of its members. Moreover, its drafting committee will include many of the profession's best-known men. It gives the recommendations its whole-hearted backing and a good deal of publicity. In consequence, the issue of a new recommendation is treated as a matter of some moment by the accounting press; this attention is fitting, but one could wish that the notices were a shade less passive.

The recommendations must therefore have a considerable influence on the thought of the mature accountant. On the immature mind – that

of a young man in training – their impact must be even deeper; for they have been given conspicuous places in his text-books and correspondence courses, and so take a leading part in moulding his views when he is still impressionable and uncritical. Even before the days of recommendations, accounting text-books and courses preferred in general to state facts rather than to explore theories. Their main concern was painstaking description of normal practice; scant space was accorded to the reasoning behind the practice, and next to nothing was said of controversy. This narrow approach has now been rendered even more likely. If an official answer is available to a problem, why should a teacher burden his examination candidates with other views? Further, the body that gives the answers may also set the examination. A young man has thus good cause for minute and respectful study of its statements. And his examination does not often include such searching questions as: 'Discuss Recommendation No. —. Set out the grounds for supposing that its reasoning is (a) correct, and then (b) fallacious; and give your own views on this point.'

Thus the recommendations tend to rob our young men's education of its power to enrich and stimulate. On such a spare diet, they may perhaps still train well enough to master the problems of today. But their minds will be less fit to solve the new problems of tomorrow; and such fitness is no bad test by which to judge an education.

The authority behind the recommendations has so far been based on prestige alone. But can we be quite certain this will always be so? There is at present not the slightest wish among the societies to take action against any non-conformists in their ranks; and I scarcely imagine that a less liberal trend will appear in the future. But danger may arise in another way – namely, if recommendations are used as evidence in lawsuits.

Consider, for instance, a case that hangs on questions of auditing theory – say, the valuation of stocks and wasting assets when price levels change. Suppose that a company follows the advice of an auditor who sincerely believes a recommendation to be wrong; that the company thereafter runs into financial trouble, and that it sues the auditor for negligence. In such a case, the determining test would probably be the standard of behaviour followed by good professional practice. Hostile counsel would treat the recommendations as powerful evidence, and could make the most damaging use of the auditor's deviation. The defence might have some difficulty in proving that many conscientious but

inarticulate accountants still regard the issue as open to argument. A judge or jury might well be swayed decisively by the recommendations and give a verdict against the auditor.¹

Such cases must inevitably crop up sooner or later. Where an auditor is faced with this risk, the temptation to play safe – by abandoning his independence of judgment – is very great. Yet a pliant attitude in such matters is scarcely compatible with the dignity of his profession.

VII. Other Kinds of Recommendations

The preceding section looked at recommendations that are intended as statements of theory, and tried to suggest their dangers. In Section II, however, we saw that some recommendations are not meant as statements of theory, but only as, e.g. working rules – in which case they may be judged by other and less severe tests, and fall outside the scope of this review.

Section II also suggested that there are certain other kinds of recommendations which may seem to avoid theory, but in fact are apt to become entangled with it. Let us consider these briefly:

(a) *Definition.* If precise and uniform meanings can be given to our terms and figures, then doubtless we shall be able to exchange ideas with more ease and clarity.² Also, accounting data will be more consistent.

Standard definitions are, however, not without their drawbacks. If speech is made rigid, it cannot evolve to meet new needs. There may be a clash between the ordinary and the technical use of a word; thus 'reserve' in everyday speech can mean something quite different from its sense in a balance sheet, and its standard use might bewilder rather than enlighten the public.

Further, words are seldom quite neutral in the battle between ideas. With 'goodwill', for instance, the ordinary meaning stands out so strongly that it obtrudes when we are trying to unravel the accounting concept, and probably colours our views. Again, choice of a definition often necessitates a choice between ideas. For example, any definition of 'depreciation' is almost sure to be tendentious.

Thus, an official link between a word and an idea is likely to bias our minds. What is almost as bad, some definitions have an air of finality

¹ An analogy is tempting. Suppose that the medical profession's first dislike of antiseptic surgery had crystallized in a hostile recommendation, that one of Lister's patients had died, and that the deceased's relatives had brought a suit for negligence. What would have been the effect on surgery?

² The Royal Society has set up a standing committee to make recommendations on the symbols, signs and abbreviations used in scientific publications.

that checks inquiry, and leaves students with no exciting sense of being explorers in a great and unknown territory.

(b) *Standard practice.* Uniformity in method and layout has strong arguments in its favour – provided it neither cramps business nor begs ideas.

Perhaps these provisos do not leave much scope for the spread of uniformity. And one remembers the rather sinister fact that standard accounting has been most used in totalitarian states.

If, however, a choice between words or methods clearly is arbitrary and free from any pretence of research, it is not likely to damage future thinking or to cramp our liberty; for example, whether traffic keeps to the left or right of the road is an arbitrary matter, and uniformity yields a gain in convenience, so no one regards a standard rule as an attack on freedom. Therefore, when we are attracted by uniformity, a good test is perhaps this: if a decision between possible terms or practices can be reached by tossing a coin or the random pulling of words from a hat, then uniformity seems unlikely to do harm.

(c) *Legal opinions.* Counsel's opinions, given at the request of an accounting society and sent out to its members, are not usually classed as 'recommendations'. But to round off our review we should ask ourselves how such statements fit into our reasoning.

The opinions do not seem so dangerous as recommendations on theory, on two grounds.

First, no wise man tries to be expert in everything; outside his own province, he can to some degree accept ideas from others without sapping his mental independence. *Second*, as we noted in Section II, the law does not pretend to state absolute principles. When a lawyer is trying to find what is 'true' or 'false', he is mainly concerned with the arbitrary – though no doubt exacting – task of interpreting words (especially those in statutes) according to the intentions of the speakers and the rules of his craft.

VIII. Conclusions

If the argument of this article is sound, where does it lead us? Perhaps the recommendations that should be made on recommendations are:

- (a) Official statements on accounting cover a number of very different things, which are often hard to separate. They include:

Guidance on professional behaviour.

Working rules, e.g. company accounts.

None of these is without its pitfalls. However, given due care and caution, the risks seem worth taking – except in the case of theory. Official quests for the abstract are apt to bear little fruit and to run into great hazards.

- (b) Recommendations should, if they are concerned with matters other than theory, try to make plain this very proper restriction in scope. For instance, if the drafts of a recommendation suggest a definition of 'current assets', they might expressly disclaim any attempt to elucidate final principles, and describe their rules as being merely based on, e.g. convenience or custom.
- (c) The more concerned a statement is with theory, the stronger is the case for not treating it as an official recommendation. A group of distinguished accountants who have debated a subject, and who wish to announce their conclusions, would not have the least trouble in finding a publisher.
- (d) The objections to a recommendation become much less marked if it is described as the work of certain named persons. We all know that individuals can err; we all tend to look on institutions as infallible. Therefore recommendations should – following the American example – be signed by the men who approve the final draft.
- (e) A dissenting opinion at once adds an extra dimension to a recommendation, and gives it far more worth as an aid to the mind. So great pains should be taken to foster and express minority views.

To conclude. Recommendations by authority on matters of accounting theory may seem in the short run to help the profession. In the end, however, they will probably do much more harm than good. They are likely to yield little fresh knowledge; 'the best test of truth is the power of the thought to get itself accepted in the competition of the market'.¹ They are likely to weaken the training of accountants; the conversion of the subject into cut-and-dried rules, approved by authority and not to be lightly questioned, threatens to reduce the value of accounting as a subject of higher education almost to *nil*. They are likely to narrow the scope for individual thought and judgment; and a group of men who resign the hard problems of their work to others must

THE INSPECTOR OF TAXES INTERROGATES: THE BLACKSMITH AT SLEEPY HOLLOW

by WILFRED TULLETT, F.S.A.A.

The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

SCENE: *A village in early summer. The sun shines. The church clock at the end of the street has just struck the half-hour – lazily, a clock which takes its time, and looks benevolently down on to the grass and old cottages below. The only other sound comes from the blacksmith's shop, lower down the village street, in which the blacksmith is fashioning horse-shoes. A man comes down the street, crosses the road and leans over the blacksmith's half-door. He is the local Inspector of Taxes who has recently been appointed to the new office in the district.*

INSPECTOR: Good afternoon, Jim. Thank you for repairing my bumper. You have made a very good job of it, but you should have made a charge.

JIM: That's all right, sir. It was nothing, and you were very good to me when I called at your office the other afternoon. . . . I am still a bit puzzled, though, on one or two points.

INSPECTOR: In that case it is a good job I came along. May I come in?

JIM: Of course. Let me undo that door. Wait a minute. I'll just dust this old chair. Now, if I put this bit of brown paper on it, you'll be all right. There you are, sir!

INSPECTOR (*laughing, as he sits down and the paper crackles*): Well, well! Thanks: how do you think I look?

JIM (*grinning*): You look grand. Just like the chairman of our parish council.

INSPECTOR (*amused*): I do not think that he would be flattered. But let me have your points, Jim.

JIM: Right, sir. My first point is about post-war credits. My aunt died a short while ago and left me what she had. She bequeathed me all her post-war credits amongst other things – including a lot of good advice! As she was over 65 when she died, can I get repayment of these post-war credits *now*?

INSPECTOR: You are about 50 years old, aren't you?

JIM: Yes: 50 on Christmas Eve.

INSPECTOR: Then you will be disappointed, Jim. You cannot get repayment now as you yourself are under 65. Sorry about it, but there it is.

JIM: Pity, but it can't be helped. I suppose that I shall get it if I live long enough. Just one point,

though. Have I to include it in my aunt's estate for estate duty? Do I have to pay estate duty on it?

INSPECTOR: So far as you are concerned at present, no. Anything else?

JIM: Yes. I think that your office has made a mistake in my marriage allowance. As you know, my wife died last May 5th . . .

INSPECTOR (*sympathetically*): Yes. I was very sorry to hear of it. But she had been ill a long time, I believe.

JIM: Yes. Things can never be the same for me, but it is best as it is . . . my point is that your office has given me full marriage allowance for the year. Should I not have had only one month's allowance as a married man, and eleven month's single allowance?

INSPECTOR: No. The allowance given you is correct, and has not to be apportioned.

JIM: That's that, then. I was a bit worried about it. Next, about gifts.

INSPECTOR: Gifts?

JIM: You see, I do all sorts of jobs for miles around this village; put hinges on gates; repair hay sweeps; mend harrows; make wrought-iron gates, and a hundred-and-one other things.

INSPECTOR: Well?

JIM: I get paid for the work, of course, but hardly a week passes but someone brings me something. Sometimes a rabbit, sometimes a few eggs, occasionally asparagus . . . you have got to live in the country to know what kindness is. What I want to know is . . . do I pay tax on the value of these gifts?

INSPECTOR: Knowing *you*, I realize quite well why people give you things. But you need not worry . . . these are voluntary gifts, and there is no option of taking cash instead. I do not see any reason to take the value of these benefactions into account.

JIM: I am glad of that; it would rather have spoilt it. Next, I come to wear and tear. You mentioned this when I was at your office. I am in a difficulty here.

INSPECTOR: What about?

JIM: I have so many things here which it seems will never wear out, and yet they cost money. Take this anvil, for instance. It was my father's

and my grandfather's, and there are quite a number of things in the smithy like this. How do I stand for wear and tear on these?

INSPECTOR: It *is* difficult, as these things have been here so many years. Normally you would get an allowance on cost . . . but this would mean nothing to you. It seems to me that you cannot do anything until they become out of date and are then replaced. Then you should claim some allowance on account of the original cost.

JIM: What if I sell them as scrap?

INSPECTOR: I think that you would probably receive no allowance at all, as you would probably get more for the scrap than the things originally cost. You see, you will not have lost anything.

JIM: So for these articles of plant I shall, in effect, receive no allowance at all, and my poor old anvil – if it continues to work in spite of all the hard knocks it has had – will not even earn an old-age allowance!

INSPECTOR (*laughing*): Looks like it, Jim. Looks like a case of service, not self, doesn't it!

JIM: It does. However, it doesn't owe me anything. But what about my acetylene-welding plant?

INSPECTOR: Ah, that is different. You *can* claim wear and tear on that. Just let me know the cost, and the date of purchase, and I will do the rest. Anything else?

JIM: There *are* my fire-station fees. I am a part-time fireman, and I receive a small retaining fee and a payment for each fire I attend. It is a long time since we had a good interesting fire. All we have had to deal with lately are a few chimneys and haystacks! Do I have to pay tax on these fees? I also keep the fire-station welfare accounts, and I get £5 a year for this.

INSPECTOR: Yes, Jim, you must return this income. It is part of your general earnings.

JIM (*drolly*): I was afraid so. By the way, Inspector, I have some news which may interest you. Old Joe's son had been training as an accountant in the town and he has just qualified. He is going to start in practice here. What do you think of that?

INSPECTOR: I am delighted. I shall be able to help him, and he will be of great help to all you one-man business men in a district like this. Perhaps we can get him in our cricket team, too. Tell young Joe to call to see me. But I must be off unless there is anything else I can do.

JIM: No, thank you. I think that is about all, but I do appreciate your help.

INSPECTOR: Just my job; but I am glad to assist where I can . . . if only more people like you realized . . . but what's that new signboard you have got there?

JIM (*laughing*): I wondered if you would notice that. We are advancing with the times, Inspector. We were blacksmiths before, but we are agricultural engineers now! Perhaps I am getting a bit up-stage, especially now that I have all the hunt horses to shoe!

INSPECTOR (*amused*): *James*, you surprise me. I really must go. Thanks again for doing the car.

JIM: I surprise myself sometimes, sir. Sorry you have to go. Ah, here comes old George with his nag. I don't think that I shall have to shoe the old lady many more times. But she is a self-willed old cuss. She won't be shod *inside* the smithy – always in the open – comes of good stock, I shouldn't wonder. Mind the step, Inspector!

[*Jim takes up a half-made shoe, and starts up his bellows. . . .*]

WEEKLY NOTES

The Institute's Twenty-first Autumnal Meeting

The twenty-first autumnal meeting of The Institute of Chartered Accountants in England and Wales comes to a close today at Scarborough after a busy and enjoyable three days.

The meeting – attended by over 500 members and their ladies – commenced on Thursday morning, when Councillor N. Walsh, M.B., CH.B., J.P., Mayor of Scarborough, extended an official welcome to the visitors, and Mr James Blakey, F.C.A., the President of the Institute, gave the opening address.

At the first conference session held on Thursday afternoon, Mr K. A. E. Moore, F.C.A., a member of the Council of the Institute, read a paper on 'The accountant as financial adviser', which was followed by discussion. The second conference session takes

place this morning when Mr E. N. Macdonald, D.F.C., F.C.A., gives a paper entitled 'The excess profits levy'.

The committee and members of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants acted as hosts for the meeting and their programme included a number of highly enjoyable social events in addition to the conference sessions.

In our next issue we hope to publish a full description of the proceedings, together with photographs and to reproduce Mr Moore's address. The paper by Mr Macdonald will appear in a subsequent issue.

Production Control Report

The specialist team which visited America in the closing months of 1951 to study production planning

and control published its report last Monday.¹ It notes that from its observation of American methods the first essential in planning for production is to study the markets so that the prospective share of trade, for as far as five years ahead, may be forecast and preparations made in accordance with these estimates.

The team was impressed by the close co-operation which existed between design, sales and production, by the concentration on certain lines of product, by the adaptation of plant to work on a two- or three-shift basis, by the comparative youth and enthusiasm of the executives encountered and by the speed, yet meticulous detail, with which each stage of manufacture was planned and carried out.

The team makes three recommendations – that every firm, large and small, in this country should examine its existing arrangements for production planning and control in the light of this report; that those systems which are found wanting should be overhauled without delay; and that small firms should devise a simple system to meet their own special requirements.

Chartered Accountant to be Chief Executive of C.D.C.

Another chartered accountant has just been appointed to a high position in a government sponsored undertaking. The latest appointment is that of Mr William Rendell, M.A., A.C.A., financial controller, since August 1952, of the Colonial Development Corporation, to the post of chief executive of the Corporation.

Mr Rendell who was admitted an associate of the Institute in 1937, after serving his articles with Messrs Peat, Marwick, Mitchell & Co, was formerly a partner in Copenhagen of Messrs Whinney, Murray, Baguley & Co, Chartered Accountants.

Exchequer Stock Success

The conversion offer on the 1½ per cent Serial Funding stock does not come to an end until this morning and it will not be clear until after this issue appears how far the operation involving the new Government loans has been a success. Only the question of degree, however, remains. It is quite clear from the subscription to the new 3 per cent 1962–63 Exchequer stock which opened and closed last Monday that this part of the operation has been an outstanding success.

The authorities had let it be known in advance that they would be content with a subscription of between £200 million and £300 million and even when allowance is made for the fact that official comment if made in advance must be qualified in its expectations, the outcome of £341 million subscribed is an exceedingly gratifying result.

From such figures it would seem certain that the banks have taken up something in the region of

£200 million which means in effect that the liquidity ratio of the banks has been reduced from 37½ per cent to 34 per cent and that a useful measure of funding of public debt has been accomplished.

The tactical position of the Government has been proved to be exceedingly strong. Its strategic position may be less so. While the success of a funding operation may be applauded, the continued expansion of the public debt in the form of Treasury bills which are from time to time mopped up by such operations is less a source for congratulation. This remains true even after allowance has been made for the fact that this year's funding operation has been required partly owing to the continuing foreign trade surplus.

Higher Gold Reserves

This country's gold reserves continue to advance although the rate of increase over the last two months has been exceedingly slow. Normally, of course, this time of the year is one of seasonal pressure on the reserves so any surplus recorded is particularly welcome and a useful sign of resilience.

In September the gold and dollar reserves went up by \$17 million. The surplus was, as in the previous month, the result of defence aid more than off-setting a small deficit with the other members of the European Payments Union. The E.P.U. deficit was in fact on account of July and August; this country is expected to be in surplus with E.P.U. for September. Excluding defence aid and E.P.U. there was a small surplus of \$4 million in September on the ordinary trading account, though it was less than for the two previous months.

During the month there was a fall in the trade with the dollar area but this is a seasonal feature at this time of the year. There are in fact signs that seasonal factors have affected the results for September but not sufficiently to create an actual deficit.

Timing Purchase Tax Reductions

The finance and taxation group of the Association of British Chambers of Commerce has been considering purchase tax at the Association's autumn conference. The group was not in favour of a reduction of purchase tax on January 31st although this would be a time when retailers' stocks would be at their lowest. The group considered that the circumstances varied as between different trades and that in any case the Chancellor of the Exchequer could not make a decision about purchase tax before the end of the fiscal year. This finding at least has the realism of bowing to the inevitable.

The group did not like the idea of substituting a retail tax for the present tax which is, of course, levied at the wholesale stage. Its arguments against what is in fact a sales tax were concerned with the loss to retailers at the time of the change, however, and not to the principle of a retail tax. There was an urgent case, the group thought, for reviewing the classification for chargeable goods, for exempting some and for reducing the levy on others.

¹ Obtainable (5s post free, excluding air mail) from the British Productivity Council, 21 Tothill Street, London, SW1.

FINANCE AND COMMERCE

With the Treasury funding operation out of the way, the stock-market has benefited from a definite broadening of interest. Turnover has been at the highest point for over two years and demand has been strong for leading industrial equities. A succession of encouraging dividend statements has assisted the movement.

South African Accounts

Group accounts are submitted this year by Sir J. L. Hulett & Sons Ltd, 'in compliance with the provisions of the Companies Amendment Act, 1952', a reminder that the company, though financed substantially with British capital, is incorporated in the Union of South Africa. The company's business in the words of the first paragraph of 'the company's accounts explained in narrative form' consists 'mainly of the growing of (sugar) cane on its own lands and the milling of this cane and of a very much greater quantity purchased from private planters'.

This 'narrative form', which extends to three quarto pages, reads very much like an interesting and informative lecture on the running of the business and its finances. The figures are kept to normal position on the right, but the narrative on the left has been expanded from accounting to explanatory form. It is an excellent piece of work incorporating information that with other companies would have been included in notes on the accounts or in the chairman's statement. As an instance, the narrative against the £255,000 for unsecured loan stock shows why and when the money was raised, its cost in interest and the amount outstanding.

The whole publication is on quality gloss paper with 'technicolour' pictures and a map showing the location of the Natal sugar industry. We reprint the consolidation, which is not, however, a full consolidation for certain reasons given by the chairman in which the auditors in their report concur. Full group accounts are promised for next year.

A further very useful section of the Hulett report is the 'Five-year review'. This shows, among other things, the figures of sugar manufactured, earnings and their disposal, and ordinary capital in terms of 'Book value per £1 share', 'Rate of dividend declared' and 'Effective dividend rate upon book value'.

Assets Revalued

This year's accounts of Thames Grit & Aggregates Ltd show the result of an asset revaluation which puts the fixed assets up to £748,688 and £369,470 to capital reserve account. It is something the directors have been wanting to do for some time, but have postponed on professional advice because of the Town and Country Planning Act uncertainties. Action was finally taken with the removal of development charges.

Mr H. W. Wilkinson, the chairman, points out that the revaluation will necessitate charging trading account for land used on the basis of present-day values, which will ensure as far as possible that 'adequate financial provision is made for the purchase of land to replace that excavated'.

Land, in this company's case, is a wasting asset as the excavation of sand and ballast for the building industry leaves holes in the ground. The Planning Act, as the chairman says, 'not unreasonably' gave authorities the right to make conditions on which such holes may be made, among them being reinstatement of the ground for some useful purpose.

There is thus not only the constant need to secure adequate replacement land but also to have well in mind the best form of restoration when the ballast deposits have been exhausted.

Peerless & Ericsson Ltd.

The chairman's address is not being published before the annual meeting, states a slip attached to the 1952 accounts of Peerless & Ericsson Ltd, 'since it is hoped that as many stockholders as possible will attend the annual meeting'. This departure from the 1951 procedure when the chairman's statement accompanied the accounts is, we think, a mistaken policy.

Admittedly, 'a copy of the address will subsequently be circulated to all stockholders', but the ideal should be to make the annual publication as informative as possible in respect of the year under review, conditions since accounting date and prospects ahead. And that, as we suggested recently, would seem to be the intention of the Companies Act. In this case, the directors' report does no more than repeat figures already presented in the accounts.

Members of this company have more than normal reason for wanting to know how it is faring. Since the quoting of the stock units on the Stock Exchange in 1946, profits have turned to losses, there has been no ordinary dividend since 1949, and the preference dividend is in arrears since March 31st, 1951. Since the top price of 27s 6d for the 5s ordinary units in 1946, the price is now down to well below the odd 7s 6d.

The company, producing food preparation machines, is now under new direction. Factories have been realized, production has been concentrated in the remaining works, and, with proceeds of realizations, the financial position has been considerably improved.

Death Duty Problem

Two companies have recently been formed by City interests for the provision of capital facilities for small businesses unable to raise finance through normal methods. Safeguard Industrial Investments Ltd, under the management of the London &

Yorkshire Trust, is mainly concerned with the problem of the effect of death duties on the family controlled business or the small company in which the capital is held by few shareholders.

Private Enterprises Investment Co Ltd, formed by the City banking houses of Samuel Montagu, Rothschilds, M. Samuel and S. G. Warburg, is to operate in a wider sphere and will cover the general financing problems of small and medium-sized businesses, but will also pay particular attention to the death duty problem.

The two companies will be complementary to the Estate Duties Investment Trust Ltd managed by the Industrial and Commercial Finance Corporation Ltd and formed earlier this year. The early operations of the Trust have shown the extent of the death duty problem and also the whole question of the financing of privately-owned businesses. The two new companies should feel a keen demand for their services.

Aspro Policy

Our suggestion, when referring to the Aspro accounts a fortnight ago, that the company should provide a firm figure for sales turnover rather than that the chairman should talk round the subject has brought a statement of the board's view from Mr J. W. Jamison, the company's managing director. A sales

figure, he says, 'would reveal to many of our competitors our turnover in our one line'.

The figure, Mr Jamison asks us to agree, 'would be of great value to such people, and would not be of great value to our shareholders'. He suggests, anent our reference to the provision of sales figures by the Beecham Group, that if Beechams were to give figures for turnover in all of their individual lines - 'it would be most unusual'.

While appreciating the point that Mr Jamison makes, we have yet to come across an instance where the provision of a sales turnover figure in the annual report has harmed the particular company's business in any way. The inclusion of the turnover figure is a matter of individual policy but it is also a policy which is becoming more widely adopted.

Money Market

Applications for Treasury bills on October 2nd totalled £348,155,000 but only £250 million of the £280 million of bills offered was allotted. The market bidding at a maintained £99 9s 4d obtained 63 per cent of requirements as against 70 per cent at the previous week's tender. The average discount rate was £2 2s 8.09d per cent and was virtually unchanged from the previous week. This week's offer is £250 million.

SIR J. L. HULETT & SONS LIMITED AND ITS SUBSIDIARY COMPANY, DELVILLE ESTATES LIMITED Consolidated Profit and Loss Account for the year ended April 30th, 1953

1952 £		£
214,712	Trading Profit from all sources after charging the items inset below	516,593
1952 £		£
11,847	Loan Stock Interest	11,209
273	Interest upon temporary borrowings	543
151	Development Investigation Expenditure	427
1,434	Johannesburg Stock Exchange Quotation Expenses	—
73,640	Depreciation	90,706
—	Additional amount set aside towards increased costs of replacement of fixed assets	101,247
Add:		
26,173	Dividend from Refineries Investments (Proprietary) Limited —	25,126
4,122	Subsidiary not consolidated	153
29,441	Dividends from Other Investments	19,825
9,101	Interest Including Interest from Investment of Reserve Funds	9,079
12,397	Rents	3,823
7,308	Adjustments from previous seasons	4,395
303,254	Profits from realization of sundry assets	578,994
	Net Profit for the Year, before taxation	
86,650	Less: Taxation (Note 2)*	199,100
2,936	Less Overprovided, 1951-52	903
219,540	Net Profit for the Year, after taxation	198,197
49,638	Add: Balance from April 30th, 1952	380,797
269,178	Available for Appropriation:	46,803
85,000	General Reserve	427,600
8,000	Contingency Reserve Fund	
16,875	Dividends:	
45,000	7½ per cent Preference Dividends paid July 15th, 1952, and January 15th, 1953	225,379
67,500	Interim Ordinary Dividend of 5 per cent payable on July 31st, 1953	9,000
	Proposed Final Ordinary Dividend of 8 per cent	16,875
		56,250
		90,000
£46,803	Unappropriated Profits Carried Forward	397,504
		£30,096

(*Notes not reproduced. — Editor.)

REVIEWS

The Law Relating to Bankruptcy, Deeds of Arrangement, Receiverships and Trusteeships

Fifth Edition

by O. Griffiths, M.A., LL.B., Barrister-at-Law

(Textbooks Ltd, Harpenden, Herts. 17s 6d net)

A new set of bankruptcy rules came into force at the beginning of this year and this alone would require a new addition of this well-known students' book on bankruptcy. The opportunity has been taken to incorporate the effect of recent decided cases on the subject. The style is terse and clear, and copious use is made of tabulation, which is a great aid to comprehension and to memory.

The Commercial Dictionary

by A. G. P. Pullan, Barrister-at-Law, and D. W. Alcock, A.S.A.A., A.A.C.C.A.

(Sweet & Maxwell Ltd, London. 25s net)

This book is an adaptation from *The Australian Commercial Dictionary* which was compiled by R. Keith Yorston, B.COM., F.C.A.(AUST.); the necessary alterations having been made to meet the needs of readers in England. A very large number of business and legal terms are clearly explained - some of these terms are in common use but are not necessarily understood by their users. A book of this kind is essentially a matter of selection and the authors have selected well. The information includes a list of the currencies of the world and a table of printers' correction marks.

**Butterworth's Company Precedents
Volume III**

Prepared by C. F. Pryke, J. W. Pryke and E. F. Stevenson

Revising Editor: Raymond Walton, M.A., B.C.L.

(Butterworth & Co (Publishers) Ltd, London. 63s net)

This volume is a reprint of volume VIA of the publishers' *Encyclopaedia of Court Forms and Precedents*. Volume VIA replaced the original volume VI in so far as it dealt with the litigation aspect of company law, the change having been made necessary by the Companies Acts of 1947 and 1948. Volumes I and II of *Butterworth's Company Precedents* are taken from *Encyclopaedia of Court Forms and Precedents* and were reviewed in our issue of March 18th, 1950.

The subject of this review which shows the law as at March 1st, 1953, and deals, as stated, with litigation, is divided into three main headings: Part I: Proceedings under the Companies Act, 1948, regulated by Order 53B of the Supreme Court;

Rules, 1949; and Part III: Debenture-holders' Actions.

Preliminary notes are provided for each part, and deal with jurisdiction and other points of general interest. One problem which often puzzles persons coming to company litigation for the first time is that of finding out to what offices, and to what rooms, he has to go in connection with the various matters which arise. The preliminary notes provide much useful information in this quest.

Another problem is to discover in what order the various steps have to be taken, and here again the stages of procedure set out in tabular form are most helpful. The tabular presentation is not new but the publishers are to be complimented on adopting it. Not only do the tables give the sequence of the procedural steps, they also give cross references to the appropriate precedents given in other parts of the text. At the same time the tables include notes which serve as reminders of important points which might otherwise be overlooked.

For receivers and liquidators, as well as for lawyers, the book will be of very great usefulness.

RECENT PUBLICATIONS

THE STOCK EXCHANGE OFFICIAL YEAR BOOK, Vol. II, 1953. cli-cccxlvi + 1651-3478 pp. 10 x 7. Price for both annual volumes £7 net, by post inland £7 3s 6d; abroad £7 5s. Thomas Skinner & Co (Publishers) Ltd, London.

RANKING, SPICER & PEGLER'S MERCANTILE LAW INCORPORATING PARTNERSHIP LAW AND THE LAW OF ARBITRATION AND AWARDS. Ninth edition by W. W. Bigg, F.C.A., F.S.A.A., and C. N. Beattie, Barrister-at-Law. lv + 422 pp. 8½ x 5½. 21s net. H.F.L. (Publishers) Ltd, London.

SHOEMENDERS, A STUDY OF GOODWILL IN INDUSTRY, by Edith Ryley Richards. xiii + 91 pp. 7½ x 5. 9s 6d net. George Allen & Unwin Ltd, London.

KONSTAM ON INCOME TAX, Twelfth Edition, Cumulative Supplement No. 2. 51 pp. 8½ x 5½. 6s net. Stevens & Sons Ltd, London, Sweet & Maxwell Ltd, London.

COMPOUND INTEREST AND ANNUITIES - CERTAIN, by D. W. A. Donald, O.B.E., T.D., F.F.A. viii + 300 pp. 8½ x 5½. 20s net. Cambridge University Press, London.

AN INTRODUCTION TO THE THEORY AND APPLICATION OF MOTION STUDY, by Anne G. Shaw. x + 37 pp. 7½ x 5. 6s net. Harlequin Press Co Ltd, Manchester.

A TEXTBOOK OF ECONOMICS, by J. L. Hanson, M.A., M.ED., PH.D. xxiv + 596 pp. 8½ x 5½. 18s 6d net. Macdonald & Evans Ltd, London.

THE PRINCIPLES OF COST ACCOUNTING, Eleventh Edition, by E. Miles Taylor, F.C.A., F.S.A.A. iv + 196 pp. 8½ x 6. 10s 6d net. Textbooks Ltd, Harpenden, Herts.

GLOSSARY OF GERMAN FINANCIAL AND ECONOMIC TERMS, by C. A. Gunston and C. M. Corner. 122 pp. 7½ x 5. 12s 6d net. English Universities Press Ltd, London.

COLONIAL MONETARY CONDITIONS, by Ida Greaves, PH.D.(ECON.). iii + 95 pp. 6 x 9½. 5s net. H.M.S.O., London.

TAX CASES REPORTED UNDER THE DIRECTION OF THE BOARD OF INLAND REVENUE. Vol. 34, Part 3 (pages 197-160).

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accounting for Goods in Transit

SIR, — It would be of great interest to the writer to have the opinions of your readers regarding the question of 'goods in transit' at the time of the annual stock-taking. The business whose accounts the writer handles is mainly a manufacturing concern — buying raw materials and having a certain amount of work carried out by outside firms. The problem arises when there are wide divergencies between the dates of suppliers' invoices and the dates when the goods are received. The problem always arises at the end of every month, but is most acute when the physical stock-taking is held at the end of the financial year.

All goods received up to the last day of the year are counted into stock, but some of these goods are not invoiced until the new year. Conversely, there are goods which are not received until after stock-taking but are covered by invoices dated before the end of the year.

Hitherto, the stock-taking total has been adjusted to agree with the financial accounts by deducting such values from the stock as have not yet been invoiced, and adding such values of goods as have been invoiced but not received.

It seems to the writer that these adjustments should not be made by altering totals of stock actually counted, but rather by incorporating reserves in the usual way in the financial accounts. By debiting a reserve to the 'Resale purchases' account in the nominal ledger to cover goods received but not invoiced, or conversely, crediting a reserve for goods invoiced but not received, the trading account would retain a true stock figure without in any way affecting the gross profit.

With an elaborate cost system involving detailed stock controls, the method now suggested of dealing with this problem seems to be more realistic and therefore preferable.

Yours faithfully,
'GOODS IN TRANSIT'.

Mechanized Bank Pass-books

SIR, — No doubt the practising members of the profession have noticed the modern trend of banks to change their system, whereby a full record of the cheques drawn was shown, to a system of numbers.

It is appreciated what a time-saver this system may be to the bank clerks, but imagine the impasse of a back duty case that may face the accountant several years hence when his main source of information is a bank statement. He may be called upon to investigate his client's affairs and perhaps his first move may be to obtain the client's counterfoil cheque books and bank statements for the purpose of obtaining the

date of a capital investment. The client, alas, has long since destroyed the counterfoils and statements and the accountant will ask the bank to furnish duplicate statements for the past years, only to be confronted with a mass of meaningless numbers.

I have recently had occasion to prepare accounts for the past three years whereby all records had been destroyed. I obtained duplicate bank statements and my problems were solved, say, by 80 per cent by the banks' prior method of recording.

I think an early review should be taken of this number system before it is too late. Perhaps the method was conceived to conceal ready information from prying eyes or jealous wives!

Yours faithfully,

A.A.S.A. NORTHAMPTON.

[Readers will no doubt recall the previous correspondence on this subject which culminated in an article entitled 'The mechanized bank pass-book: name of payee or cheque number' by 'A Banker' in our issue dated July 10th, 1950. — Editor.]

Stamps on Receipts

SIR, — I must join issue with the suggestion, in the leading article on this subject in your issue of September 12th, that the statutory definition of a receipt subject to 2d stamp duty is applicable to the majority of 'sales bills' handed by large retailers to customers making cash purchases of goods amounting to £2 or over. On the contrary, great care has been taken to ensure that the wording of these documents does not constitute or even imply acknowledgment of payment, and the Controller of Stamps maintains a watchful eye on us from this standpoint.

You may perhaps ask what function is performed by the document handed to the customer other than that of being 'a record of the money paid'. The answer is that it serves as an acknowledgment that the customer has bought the goods described in it, and is therefore entitled to take them away. This fully meets the requirements of the generality of cash customers. Those few who require an acknowledgment of payment, e.g. for submission to some third party, ask for and are given a receipt, properly stamped.

Yours faithfully,
DONALD BARBER,
Secretary,
RETAIL DISTRIBUTORS'
ASSOCIATION INCORPORATED.

London, W1.

[Our correspondent certainly has the Inland Revenue on his side as is witnessed by a Written Answer given in the House of Commons by the then Chancellor of the Exchequer on July 4th, 1949 (reproduced under

'In Parliament' in our issue of July 16th, 1949). However, the fact that the Inland Revenue do not prosecute in respect of particular forms of document is by no means conclusive that the document is outside the very wide statutory definition of 'receipt'. As regards the second paragraph of our correspondent's letter, one can only speculate on the fate of a customer in a cash store who tries to maintain that the slip of paper he has been given entitles him to carry the goods away without first paying for them. In practice, the document he eventually gets is his passport out of the shop, and he does not normally get it until he pays. Apart from these curious documents, so difficult to name, it is a matter of frequent occurrence for customers to receive receipts, in the full sense of the word, which are nevertheless not stamped. — Editor.]

SIR, — I was interested in the article on 'Stamps on receipts' in *The Accountant* of September 12th, 1953. As stated, the number of cash sale notes which should be stamped, but which are, nevertheless, issued without the 2d receipt stamp must be phenomenal. The substitution of the title 'Cash sale' by 'Non-credit' or 'Non-entry' has been suggested as sufficient to take the documents out of the statutory definition of receipts, but such expedients would not be necessary if the law were suitably amended.

A new slant on this question has, however, recently been drawn to my attention and I should be interested to know whether any readers have evidence of its adoption in industry. I should also be interested to know whether the proposed procedure would be considered adequate by company auditors.

When a payment is made by cheque, banking procedure ensures that proof of payment can be established, even if a receipt is not obtained from the payee. Receipts that serve no useful purpose are a needless expense, and so debtors who pay their accounts by cheque, money order or postal order need merely be requested to return a 'tear off' portion of their statement of money owing with their remittances. The portion retained would provide a space for the number and date of payment which, together with the paid cheque, money order or postal order counterfoil, would serve as sufficient evidence of payment. Receipts would then only be given when specially asked for or when cash is tendered.

A firm issuing 72,000 receipts per annum would

save £600 per annum in the cost of receipt stamps alone and other running costs would be reduced. The saving to industry is obvious, but I wonder how the Government would react to the reduction in revenue which the general introduction of such a method would entail.

Yours faithfully,

J. R. ELLIS, A.C.A.

Chapel-en-le-Frith, Stockport, Cheshire.

Management Accounting: the Cash Forecast

SIR, — On reading my letter on the above subject, which you published in last week's issue of *The Accountant*, I notice that depreciation of £20,000 which should have been added to the opening profit figure was, in fact, deducted.

As I have no doubt that several of your readers will be writing to point this out, perhaps you will accept my apologies for this error.

Yours faithfully,

C. L. METCALFE.

Higham Ferrers, Northants.

'Replacement Profit is False':

Mr Briscoe's Rejoinder

SIR, — Reading your correspondents' letters on my article 'Replacement profit is false' (your issue of June 6th, 1953), I note an underlying assumption that the truth is somehow old-fashioned and reactionary, something that is not particularly important, and that we, the orthodox accountants, must be prepared to abandon the truth if we are to continue to be useful to society. This I strongly deny, for on the contrary, it is the victory of truth over ignorance and superstition which is the basis of all progress, and we are indebted to Keynes for the truth about those economic matters which affect us as accountants. I do not mean that he applied his mind to this particular problem, but he provided the knowledge which enables us to solve it. We are not held back or imprisoned by ignorance. Keynes found the truth, and the truth has set us free.

I submit that none of your correspondents has established the truth of replacement accounting, that it is not established by the Association of Certified and Corporate Accountants in their treatise *Accounting for Inflation*, nor have I been able to discover anywhere a demonstration of its truth.

Let us examine it once again. We will take eight units of real wealth: A B C D E F G and H. A and B

SIMPLIFIED ORTHODOX NATIONAL ACCOUNTS

Fifteen years 1938 to 1952 inclusive

Unit of real wealth equals £1 in 1938 and £2 in 1952

Real units and monetary units 1 = 1,000 million

	£	Units		£	Units
Opening equipment and stock	10	10	Consumption (sales)	209	100
Outlay on goods sold	180	90			
Profit	19				
	209	100		209	100
Outlay on goods not sold	20	10	Closing equipment and stock	20	10
	£229	110		£229	110

were made before the current period, C-H were made during the current period, and of these G and H were not consumed. Identifying our units by these letters, we find that income for the current period calculated by the replacement method is made up of units A and B which were made before the period started, plus units C-F which were made during the period, while G and H although made in the current period, we are told are, nevertheless, not income of that period. This follows from the correct application of Pigou's definition, for the inflowing stream of production is made of eight units A-H and from these have to be deducted

	£	Units
Opening equipment and stocks ..	10	10
Outlay on production	200	100
Provision for higher replacement costs of equipment and stocks	10	-
Profit	9	-
	<u>£229</u>	<u>110</u>

G and H in order to replace A and B, and so maintain real wealth. All reasonable men must agree that it is false to say that our current income is composed of units A-F when of these A and B were not currently made and G and H which were currently made do not appear at all. This in all its simplicity establishes once and for all that income of any period is not what remains after maintaining capital intact. Our true current income is what we can consume without dipping into our capital, viz. C-H. Since we have voluntarily consumed A and B to that extent capital has been eroded. Since we have voluntarily saved G and H we have replaced our capital. Whether we do better than this or worse is also a free decision of the community.

Now 'Pettifogger' (your issue of June 27th, 1953) maintains that this proof breaks down because it does not distinguish between the voluntary act of personal consumption and the wearing out of fixed capital which is the accompaniment of the productive process, but he has overlooked that the wearing out of fixed capital does not involve any erosion of real wealth. A moment's reflection will remind us that when fixed capital and raw materials are used in the productive process the wealth involved is not lost but changes its form and emerges as stocks of finished goods and services ready for and awaiting consumption.

This means that all erosion of wealth takes place as a result of, and only as the result of, voluntary decisions by the community to consume the finished product. 'Pettifogger's' criticism therefore fails, and with it his other assertion that there is nothing in Pigou's definition to prevent capital being consumed, for this depends upon the first.

My example, set out on the previous page, illustrates a case where the community, in spite of saving in monetary terms, is no better off in real terms.

This shows that 100 units have been consumed, 10 from the past and 90 current and that the orthodox income, past and present, generated by these units is £209 which is exactly spent in consuming them.

they laid out and have got it back. The orthodox income is, therefore, true in monetary or real terms. Lastly, they laid out a further £20 creating 10 units, and this income is equal to the value of the goods at cost and is, therefore, true income, and the community, because of inflation, has had to save £20 instead of £10 to maintain their real wealth.

Mr K. Lacey (your issue of July 4th, 1953) does not attempt to disprove this, but like the Association of Certified and Corporate Accountants, he takes as an axiom that Pigou's definition should be applied to my example as follows:

	£	Units
Consumption (sales)	209	100
Closing equipment and stock	20	10
	<u>£229</u>	<u>110</u>

But this does not carry out the terms of the definition which can be correctly applied only as follows:

	£	Units
Opening equipment and stocks ..	10	10
Outlay on current production sold ..	180	90
Orthodox profit on sale of opening equipment and stocks and current production	19	-
Outlay on current production unsold ..	20	10
Inflowing stream of output = gross income (units A-H)	229	110
Deduct amount required to maintain real capital intact (units G and H) ..	20	10
Net income (units A-F)	<u>£209</u>	<u>100</u>
Equal to consumption in this special case where real wealth is exactly maintained	<u>£209</u>	<u>100</u>

This is the true application because in strict conformity to the definition it sets down the inflowing stream of production (gross income), deducts the amount required to maintain capital intact, leaving net income. It is used in a modified form to produce the national accounts; it is false as I have shown but it does not call for any alteration in orthodox accounting.

Replacement accountants forget that monetary profit merely decides in the open market how total real income is to be shared between business men and the rest of the community. In the example of the national accounts above, the business men get 19/209ths of the 100 units sold, and if you tell a lie and say that their profit is £9 only, you do not alter anything—they still get 19/209ths. All you have done is to make a false statement so that when the rest are dissatisfied with their share of the real wealth available, when they find that their wages are not buying as much as before, you dishonestly produce your false accounts and 'prove' to them that you are getting even less. Since profit merely decides how total income is to be shared, and since it is total income and not its division

sary monetary saving while extracting the real sacrifice from the others, a rather disreputable modern way of grinding the faces of the poor because it relies upon their ignorance to get by, for in most cases in times of inflation the business men have already charged a price which shows a normal profit on replacement cost, and having extracted as much as they can in open-market, their demand to calculate their profit by the replacement method amounts to a conspiracy with their accountants, furtively as it were, behind the scenes, to improve their bargaining position still further. I am sure that I shall not appeal in vain to my fellow accountants to have nothing to do with this dishonesty.

Lest I be accused of being impractical will you, sir, allow me a little more of your space, briefly to show how this works out in our everyday affairs. Keynes has given us the knowledge, so that, although we are accountants, not economists, we can understand the wider implications of our work. I claim that in any period the community voluntarily decides to spend part of the income it saved in the past and so consumes a part of its accumulated real wealth. This real wealth belongs to the business men and it is their past income which has been saved; it is their monetary capital, and you may pertinently remind me that they do not spend it; they lay it out again.

You will readily agree that when contemplating the national income we do not expect to find that those people who make capital goods save their income and those who make consumption goods spend theirs, and you will, therefore, not be surprised to find that the decision to spend past income is carried out by substitution. The capital laid out again is income to the people who make the new wealth which is carried forward to the next period; they do not save it; they spend it on the old wealth brought forward from the past, but it remains true that the community as a whole has voluntarily decided to consume past wealth, and has voluntarily decided to save wealth for the future. The orthodox principle is therefore carried out in practice by substitution. The income generated by outlay on goods carried forward should, in my present sense, be saved, but is spent. The business men's capital, being their past savings, should be spent, but continues to be saved, and is laid out again. The one takes the place of, and provided prices are stable, balances the other.

If inflation intervenes, then an additional amount must be laid out to maintain real wealth, and this too is an amount saved, but there is nothing which can be substituted to cover it. It therefore involves additional savings by the community and as Mr Lacey points out, they are not in the mood to make the necessary sacrifice. Replacement accountants would impose the necessary discipline on society by falsifying profit, and if by opposing them I appear to be unhelpful it is because I do not believe that they would achieve their object by such chicanery.

Nevertheless, it remains true, as Mr Bibby (your issue of June 20th, 1953) bluntly affirms, that inflation has the effect that, if business men spend no more than their orthodox income they will find themselves less well-off in real wealth as the years go by. They have to learn that up to the point where they have spent their income they are no worse-off as I have shown above, but when they lay their money out again, then in common with everyone else they find

that it buys less. That is why they grow poorer in real wealth and nothing can be done about it, if the community permits the dishonesty of inflation. Nothing can be done, that is, unless you are prepared to match it with more dishonesty, unless accountants are prepared to deceive by certifying false profits as true, and can get their lie believed. The brave new world which replacement accountants offer you is built on dishonesty added to dishonesty.

It is not so many years ago that the then President of The Institute of Chartered Accountants in England and Wales, in the *Kylsant* case, was justified in bearing witness that profits calculated after adding to or drawing upon secret reserves were 'true' profits. Today all agree that such profits are false and we may congratulate ourselves on this step towards the truth, this small addition to all those things which add up to a better world. The next major step is undoubtedly to establish that writing down stocks to market price must be by way of allocations out of profit, not a charge against profit, for how can honest men certify as true the definite cash profit made on the sale of units A-F, to use my example, after reducing that definite sum by an amount which it is thought or indeed is definitely known, will be lost on the sale of units G and H. That should be a transfer to reserve, thereby disclosing the extent of management's lack of foresight, in short, what bad buyers they are.

These things I maintain are the progressive steps by which our profession may improve its usefulness to the community. Our value lies in the reputation we establish that when we certify that a statement is true and fair it is so.

Consider the following certificate:

'We have examined the books and accounts of the company and have obtained all the information and explanations we have required. We certify that the results disclosed have been correctly calculated on a basis which in our opinion is in the best interests of all concerned.'

This, or something on these lines, I maintain is the only honest certificate which replacement accountants can sign, whereupon the rest would indignantly ask, who are these accountants who presume to know what is good for us. This will not do; this is not our job. As members of a profession which has gained the respect of all, our path is plain: it is our duty to seek the truth to the best of our ability and so to certify with a quiet mind that the results disclosed are true and fair, and we shall reap our reward for our fellow men will honour us for our integrity, respect us for our knowledge and like us because we are unassuming.

This, sir, I venture to say, marks the end of the replacement theory. No doubt there will be mopping-up operations, and people must have time to readjust their minds, but the main battle is won. Like the Douglas Credit Scheme and many other economic theories, it withers and dies in the light of the truth. For those to whom the truth means little it will retain its appeal, and like the Douglas scheme it may linger on in the remoter parts of the world where superstitions die hard. For its demise we have Keynes to thank, for had he not hammered out his general theory we might in ignorance have done great harm to our profession, but he gave us the knowledge with which to reach the truth, and for that we may be thankful.

Yours faithfully,

Kings Norton, Birmingham. H. A. BRISCOE.

NOTES AND NOTICES

Personal

MESSRS E. M. OWEN & Co, Chartered Accountants, of 11-13 Victoria Street, Liverpool, 2, announce that as from October 5th, 1953, they have taken into partnership Mr WILLIAM DOUGLAS CORKISH, A.C.A., who has been associated with the firm for many years. The name of the firm will remain unchanged.

MESSRS LEVER BROS. & Co, Chartered Accountants, of 1 Devonshire Square, Bishopsgate, EC2, announce that as from October 1st, 1953, they have admitted into partnership Mr STUART M. LEVER, M.A., A.C.A., the son of the senior partner, Mr HENRY LEVER, F.C.A.

MESSRS SIDNEY H. BUCKLAND & SON, Chartered Accountants, of Moorgate House, 6 Christina Street, Swansea, announce that as from October 1st, 1953, they have admitted into partnership Mr W. S. HOOD-WILLIAMS, A.C.A., and Mr WILFRED H. JONES, B.COM., A.C.A., who have been associated with the firm for some years. The style of the firm will remain unchanged.

MR J. GEOFFREY HOLCROFT, F.C.A., practising under the style of F. HUNTER, GREGORY & LORD, Chartered Accountants, at Irwell Terrace, Bacup, Lancs, announces that he has taken into partnership, as from October 1st, 1953, Mr JOHN SOWERBY GARTSIDE BARKER, A.C.A., and Mr CLIFFORD ROY PICKUP, A.C.A., both of whom were articled in the firm. The style of the firm will remain unchanged.

MESSRS GRAHAM, SMART & ANNAN, Chartered Accountants, of 22 Charlotte Square, Edinburgh, 2, announce that Mr MICHAEL GEORGE WITTET, A.C.A., has been assumed a partner of the firm as from October 1st, 1953.

MESSRS THOMSON, JACKSON, GOURLAY & TAYLOR, Chartered Accountants, of 24 George Square, Glasgow, C2, announce that they have assumed as a partner, as from October 1st, 1953, Mr WILLIAM FENWICK GEMMILL, B.L., C.A., who received his training with the firm and their London firm Messrs JACKSON, TAYLOR, ABERNETHY & Co, Chartered Accountants.

MESSRS JOHN BALDOCK & Co, Chartered Accountants, of Grantham and Nottingham, announce that Mr W. J. C. GREGORY, M.A., C.A., recently principal internal auditor, Road Haulage Executive, has joined them in partnership.

MESSRS HOLDEN, HOWARD & Co, Chartered Accountants, of 3 Abchurch Yard, London, EC4, announce that as from October 1st, 1953, they have admitted into partnership, Mr JAMES MAY SELBY, A.C.A., and Mr FREDERICK JOHN TREVERS, D.F.C., A.C.A., both of whom have been members of their staff for some years. The name of the firm remains unchanged.

LORD LATHAM announces that as from October 1st, 1953, his business address will be as follows: LATHAM & Co, Certified Accountants, Walter House, 418-422 Strand, London, WC2.

MESSRS T. C. SQUANCE & SONS, Chartered Accountants (incorporating JOHN PARKER & SONS), of 26 John Street, Sunderland, and at Darlington, announce that as from October 1st, 1953, they have taken into partnership Mr MICHAEL JOHN LAWRY SQUANCE, A.C.A., son of the late Mr E. L. SQUANCE. The style of the firm will remain unaltered.

Professional Notes

Mr D. V. House, F.C.A., Vice-President of the Institute, and a partner in the firm of Harwood-Banner, Lewis & Mounsey, Chartered Accountants, has joined the board of the Triumph Investment Trust Ltd.

Mr R. G. Sutton, F.C.A., has been appointed chief accountant of Simms Motor Units Ltd.

Mr C. L. Woolveridge, F.C.A., a partner in the firm of Binder, Hamlyn & Co, Chartered Accountants, has been appointed a director of George Spencer Moulton & Co.

Mr Kenneth Claude Thompson, A.S.A.A., A.I.M.T.A., A.C.I.S., senior section head in the Chief Accountant's department of the North Western Electricity Board, has been appointed chief accountant to the Board (as from November 30th, 1953), in succession to Mr Albert Heaton who is retiring.

Revenue Paper: Michaelmas Sittings 1953

HIGH COURT OF JUSTICE (CHANCERY DIVISION)

The following cases are down for hearing in the Chancery Division:

In the matter of R. L. Holt, deceased, and in the matter of the Finance Act, 1894, Cecil Raymond Holt and Others v. C.I.R.

J. R. Hammerton v. J. H. Overy (Inspector of Taxes).
Harold Victor Boarland (Inspector of Taxes) v.

Kramat Pulai Ltd.

C.I.R. v. Kramat Pulai Ltd.

C.I.R. v. Southern Malayan Tin Dredging Ltd.

C.I.R. v. Malayan Tin Dredging Ltd.

Commercial Securities Ltd (in liquidation) v. C.I.R.

J. W. H. Brocklebank (Inspector of Taxes) v.

The Raw Cotton Commission.

Westminster Bank Ltd v. C.I.R.

Bramford's Road Transport Ltd v. T. I. J. Evans (Inspector of Taxes).

G. H. Atkins & Sons v. E. F. Clayton (Inspector of Taxes).

Samuel Cusick Ltd v. J. Ryan (Inspector of Taxes).

A. & J. Mucklow Ltd (in liquidation) v. C.I.R.

[We hope to give the list of Court of Appeal cases in an early issue. - Editor.]

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday, Final Course Lectures:

9.30 a.m.: 'Building societies', by Sir Bruce Wycherley, M.C., F.C.I.S. (managing director, Abbey-National Building Society). 11.15 a.m.: 'The finance of foreign trade', by Mr G. I. Williamson (assistant manager, Midland Bank, Overseas Branch). 2.0 p.m.: 'The capital structure of limited companies', by Mr H. J. S. French, O.B.E., B.C.L. (London and Yorkshire Trust Ltd). 5.30 p.m.: 'The committee answers' - a general discussion of students' problems - Chairman, Mr D. V. House, F.C.A. (Vice-President of the Institute).

Tuesday, Final Course Lectures:

9.30 a.m.: 'Goodwill', by Mr R. J. Carter, B.COM., F.C.A. 11.15 a.m.: 'Receiverships and bankruptcy practice (including deeds of arrangement)', by Mr Leslie Cork. 2.0 p.m.: 'The accountant's place in an industrial organization', by Mr E. H. Davison, A.C.A. (chief accountant, Courtaulds Ltd).

Wednesday, Final Course Lectures:

9.30 a.m.: 'The chartered accountant and accounting mechanization', by Mr J. Sandford Smith, A.C.A. 11.15 a.m.: 'Costing', by Mr Lawrence W. Robson, F.C.A., F.C.W.A. 2.0 p.m.: 'The consolidation of accounts in practice', by Mr W. E. Parker, C.B.E., F.C.A. 3.45 p.m.: 'Stock Exchange practice', by Mr T. R. Maguire (member of the Council of the Stock Exchange).

Thursday, 5.30 p.m. (at the Library):

Beginners' debate (limited numbers); motion: 'That the present licensing laws encourage drunkenness and disorder'.

Friday, 5.15 p.m. (at the Institute):

Introductory course lectures on (1) 'The chartered accountant's profession'; (2) 'The conduct of a typical case in the Courts'.

The Sheffield and District Chartered Accountant Students' Society

The report of the committee of The Sheffield and District Chartered Accountant Students' Society - presented at the Society's recent sixty-second annual meeting - records a further increase in membership which now numbers 202.

During the year ended April 30th, 1953, members spent an active year in which an extensive programme of lecture meetings was held and a visit made to the factory of Messrs Newton Chambers & Co Ltd.

The annual dinner took place at *The Grand Hotel* on March 6th, in conjunction with The Sheffield and District Society of Chartered Accountants, and was preceded in the afternoon by an address by Mr T. B. Robson, M.B.E., M.A., F.C.A. The Society's Christmas party, held at *The Brincliffe Oaks Hotel*, once again proved a great success and was enjoyed by some 200 members and friends.

The officers of the Society for the year 1953-54 are as follows:

President: Mr R. G. Beard, F.C.A.

Vice-Presidents: Messrs J. F. Dunk, F.C.A., and A. G. Thomas, F.C.A.

Chairman of Committee: Mr K. West, A.C.A.

Committee: Messrs D. R. Britton; I. D. Livingstone, B.A.(ECON.); G. Maer; J. P. Peterken, B.A.(ECON.); J. H. Rodger; R. S. Sanderson; and B. L. Simpkin.

Hon. Treasurer: Mr J. K. Archbold.

Joint Hon. Secretaries: Mr D. K. Gardiner and Mr J. J. D. Coates, c/o T. G. Shuttleworth & Son, 32 Wilkinson Street, Sheffield, 10.

South Wales and Monmouthshire Chartered Accountants' Golfing Society

The autumn meeting of the South Wales and Monmouthshire Chartered Accountants' Golfing Society was held on the links of the Royal Porthcawl Golf Club on September 25th in perfect weather, despite previous days of heavy rain and gales. The attendance of principals was disappointing, but there was an increase in the number of articled clerks.

The results were as follows:

Captain's Cup (Principals)

S. L. H. Williams	..	..	..	92-16=76
P. S. Potter	..	..	..	94-15=79

Deloitte Tankard (Articled Clerks)

P. D. Price	..	..	..	82-10=72
G. W. Jones	..	..	..	108-24=84

Stableford Foursomes

S. L. H. Williams and K. L. Saics	..	28 pts.
M. Dixon and J. R. Simons	..	23 pts.

Sealed Holes

Morning - H. L. Jones

Afternoon - H. L. Jones and C. R. Daniel.

Incorporated Accountants' Students' Society of London

The first annual dinner of the Incorporated Accountants' Students' Society of London held on Friday, October 2nd, at Incorporated Accountants' Hall, was attended by over seventy members and guests.

The dinner was in honour of the President, Mr E. Cassleton Elliot, F.S.A.A., and among the guests were:

Professor W. T. Baxter, B.COM., C.A. (*Department of Accounting, University of London*); Sir John Braithwaite (*Chairman, London Stock Exchange*); Professor F. Sewell Bray, F.C.A., F.S.A.A. (*Stamp-Martin Professor of Accounting*); Mr Colin Campbell, A.S.A.A.; Sir Harold Gillett, M.C., F.C.A.; Messrs S. C. Ireland (*Editor, 'Peers Debates'*); Derek du Pré (*Editor, 'The Accountant'*); L. G. Mansfield, F.S.A.A. (*Auditor, Incorporated Accountants' Students' Society of London*); H. B. Sheasby, M.B.E., F.C.A., F.S.A.A. (*Chairman, Incorporated Accountants' London and District Society*); Francis Whitmore (*City Editor, 'Daily Telegraph'*).

Sir Harold Gillett proposed the toast of the Incorporated

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porated Accountants' Students' Society of London, to which Mr E. Cassleton Elliot responded. The toast of 'The Guests' was proposed by Mr A. V. Hussey, F.S.A.A., and replied to by Sir John Braithwaite.

The Institute of Actuaries

An ordinary general meeting of The Institute of Actuaries will be held in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, London, EC2, on Monday, October 26th, at 5 p.m., when a paper entitled 'The concept of probability' by Mr R. D. Clarke, F.I.A., F.S.S., will be submitted.

Members may bring guests, and tea will be served from 4.30 p.m. in the members' lounge on the lower ground floor.

Our Contemporaries

THE ACCOUNTANTS' JOURNAL. (Wellington.) (July.) 'A survey of some of the more important functions and responsibilities of the accountancy profession in relation to commerce, finance and currency', by R. C. Burgess, F.P.A.N.Z.

THE INTERNAL AUDITOR. (New York.) (September.) 'Wage and salary determination and administration', by Henry W. Spitzhoff.

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (September.)

LOCAL GOVERNMENT FINANCE. (October.)

THE ACCOUNTANTS JOURNAL. (October.)

THE COST ACCOUNTANT. (October.)

Other Publications Received

THE CHAMBER OF COMMERCE JOURNAL. (September.)

JOURNAL OF THE ROYAL SOCIETY OF ARTS. (October.)

THE BUILDING SOCIETIES' GAZETTE. (September.)

INDUSTRIAL WELFARE. (July-August.)

DIE WIRTSCHAFTSPRÜFUNG. (Stuttgart.) (October.)

BULLETIN FOR INTERNATIONAL FISCAL DOCUMENTATION. (Amsterdam.)

THE WOMAN C.P.A. (New York.) (August.)

F.B.I. REVIEW. (September.)

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 13TH, 1928

Extract from Weekly Notes

Audit of Solicitors' Accounts

The remarks of Mr. George E. Hughes at the Law Society's meeting on the desirability of a compulsory audit of solicitors' books will certainly be endorsed by our readers. At the present time a solicitor's articled clerk has to pass an examination in book-keeping, but once qualified and in practice there is no legal obligation on him to keep books in any sort or in any particular form, or to have those he does keep professionally audited. The fact that defaulting solicitors are comparatively rare is evidence that the

majority do keep their books in a proper manner, but compulsory audit is a matter of common sense which would afford protection to both solicitor and client. Mr. Hughes went on to suggest that the solicitors' profession might be reorganised by the formation of two groups, namely, Fellows and Associates. Fellows would be entitled to practise on their own account, would submit to compulsory audit and bonding to secure their fidelity or contribution to the indemnity fund; and Associates, while enjoying the right of audience in the inferior courts, would only be entitled to act as managing clerks retained by Fellows.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 12TH, 1878

A Bank and Professional Auditors

Whether the surmise contained in the following letter to *The Times* be correct or not, the lesson of the necessity of a compulsory professional audit cannot be too strongly enforced:—

"October 7, 1878.

"Sir,—In your City Article on this subject you state that there is reason to believe the balance-sheet of this company published in June last was incorrect. The natural question is by whom were the accounts audited. I rather suspect not by properly appointed professional auditors.

"I know of banking companies the figures of which are only vouched for by their own directors, and as long as shareholders are apathetic enough to allow this state of things to exist 'smashes' of the sort we are now lamenting will happen.

"Surely it is time that the question of auditors to public companies should be thoroughly ventilated and considered by unsuspecting shareholders.

"Faithfully yours,

"A LATE BANK INSPECTOR."

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The Accountant

ESTABLISHED 1874

OCTOBER 17TH, 1953

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AUTUMNAL MEETING

CONTENTS

Leading Articles	Page
Autumnal Meeting	425
The Finance Act, 1953 - XI	425
Special Article	
Schedule A: Additional Assessments by Peter Whitworth	428
Lecture	
The Accountant as Financial Adviser - I by K. A. E. Moore, F.C.A.	430
Weekly Notes	433
Finance and Commerce	434
Correspondence	
Recommendations on Accounting Theory - Valuation of Stock-in-trade - Consolidation Query - Builders' Cost Records - Stock Control System for Seed Warehouse - A Bing of Blaes	437
The Institute's Twenty-first Autumnal Meeting	439
The Institute of Chartered Accountants in England and Wales	
Meeting of the Council	455
Ownership of Records	456
Findings and Decisions of the Disciplinary Committee	458
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: List of Members - Personal - Professional Notes - The Chartered Accountant Students' Society of London: President's Meeting: Next Week's Meetings - Institute of Cost and Works Accountants - Cost Accounting and Productivity - Seventy-five Years Ago	459

ELSEWHERE in this issue we give a full and illustrated account of the proceedings at the twenty-first autumnal meeting of The Institute of Chartered Accountants in England and Wales. Suffice it to say that the traditions of previous autumnal meetings have been most worthily upheld and that all those who were able to attend enjoyed an occasion which offered an invigorating mixture of business and pleasure.

The presidential address of MR JAMES BLAKEY, F.C.A., covered a wide field of matters in which both members of the Institute and of the profession generally are deeply interested. Speaking on domestic subjects, MR BLAKEY mentioned the steady increase in membership and gave some details of the Institute's eminently satisfactory finances. He stressed the marked increase in the Institute's activities and referring to the importance of maintaining 'a flow of new members who will not merely add to our size but will also add to our stature and reputation', offered helpful counsel on the selection and training of potential members.

The duty of a member of the Institute before accepting nomination for appointment as auditor or professional accountant to a company, partnership or private individual, to communicate with the previous auditor or professional accountant, is the subject of a statement in the members' handbook. The PRESIDENT said that there appeared to be

'Some misunderstanding about the nature of the communication which should be sent and the time at which it should be sent.'

and offered some advice on these two points. We hope to discuss this matter in a leading article in an early issue.

MR BLAKEY concluded his helpful address with comments on the national outlook, stressing the part that can be played by chartered accountants.

THE FINANCE ACT, 1953—XI

Section 30: Chattels Accepted for Estate Duty

THE desirability of preserving beautiful and historic houses and making them available to the public has received much publicity of late. The point has been made that visits to such buildings will be more enjoyable and worthwhile if the furniture and other contents are left *in situ*—assuming that these are either beautiful or of historic interest, or illustrate the way in which such houses were furnished as private dwelling houses. The Finance Act, 1951, by Section 33, provided for exemption from estate duty of chattels of this kind which are given

to the National Trust for display in a building owned by the Trust.

Section 30 of the Finance Act, 1953, provides further encouragement for keeping chattels with their appropriate buildings. It also facilitates the bringing back to a house of chattels formerly associated with it. Where objects are or have been kept in a building and it appears to the Treasury desirable for them to remain associated with the building, the Inland Revenue may accept them in satisfaction of estate duty (Section 30 (1)).

The building must satisfy *one* of the following conditions, which are not mutually exclusive.

- (a) The Inland Revenue have decided to accept the building in satisfaction of estate duty under the Finance (1909-10) Act, 1910, Section 56. This section is confined to land (including buildings) and Treasury approval is not expressly required.
- (b) An interest in the building is held by the Crown or the Duchy of Lancaster or the Duchy of Cornwall.
- (c) The Minister of Works is guardian of the building under the Ancient Monuments Consolidation and Amendment Act, 1913.
- (d) The National Trust (in England or in Scotland) holds an interest in the building.

It will be seen that the conditions are such as to make it likely that the building will be available to have the objects put or kept in it and that the public will have a reasonable prospect of visiting it. These points will no doubt be settled before the Inland Revenue decide to accept any particular objects. The fixing of their value will be a matter of negotiation.

Section 30 (2) applies the provisions of the Finance Act, 1946, Sections 50 and 51, to the objects dealt with under Section 30 (1). Under these provisions the Treasury can direct that a sum equal to the amount of duty satisfied by the objects should be paid to the Inland Revenue out of the National Land Fund – a fund set up by Section 48 of the 1946 Act.

The objects are to be disposed of as the Treasury direct, but presumably in every case the Treasury will direct that the objects be disposed of in such a way as to ensure that they will be kept in the building in question, at least as long as it is available. The Treasury can hire out the objects and can also direct that they be transferred direct from the taxpayer to the appropriate

body (e.g. the National Trust) to administer.

No stamp duty will be payable on conveyances or transfers of the objects pursuant to Section 30 (Finance Act, 1946, Section 51 (4); Finance Act, 1953, Section 30 (2)). Of course, chattels can be transferred by manual delivery so that in the ordinary way no stamp duty need arise.

Section 30 (3): Chattels Exempt from Estate Duty until Sale

Section 30 (3) makes what in effect is a consequential extension in the relief from estate duty granted by the Finance Act, 1930, Section 40. This section applies to objects which appear to the Treasury to be of national, scientific, historic or artistic interest – a test which differs in words from that in Section 30 but for practical purposes is much the same. Section 40 exempts such objects from being aggregated with the rest of the estate for the purposes of calculating the rate of duty, and, as long as they are enjoyed in kind, it exempts them from the duty itself. When they are sold, the net proceeds attract duty at the rate applicable to the rest of the estate, unless the objects are sold to the National Gallery, the British Museum, or any other similar national institution, any university, county council or municipal corporation in Great Britain, or the National Art Collections Fund (Section 40 (2)), or the Friends of the National Libraries (Finance Act, 1936, Section 26).

Section 30 (3) now provides, perhaps unnecessarily, that the acceptance by the Inland Revenue of objects under Section 30 shall not be treated as a sale of those objects for the purpose of Section 40 of the 1930 Act.

Where objects have been accepted under Section 30, liability cannot arise under Section 40 in respect of a death which occurred before they were accepted (Section 30 (3)).

Section 31 (1): Stamp Exemptions for National Savings Groups

Section 31 (1) adds to the already enormous number of special exemptions from stamp duty. It exempts certain instruments which are executed for the purposes of a savings committee or a savings group which is affiliated to the National Savings Committee or the Scottish Savings Committee.

The instruments are:

- (1) A receipt given by or to a person acting for

such a body, concerning payment or repayment of contributions or subscriptions.

- (2) An order given to obtain repayment of a contribution or subscription.
- (3) A receipt given on the recoupment of disbursements or expenses by a person who is within (1) above, or on the adjustment of his accounts.
- (4) An agreement or bond whereby such a person makes himself responsible for the money etc. supplied for the purposes of the body he acts for.

The exemption applies from the date of the passing of the Act (July 31st, 1953). It is hardly likely to impose any great strain on the Exchequer.

Section 31 (2): New Local Authority Stock; Reduced Conveyance Duty

Section 31 (2) contains a stamp duty concession the object of which is to encourage local authorities to seek finance in the general market. As from 1947 the *ad valorem* duty on transfers of stock was doubled, thus making stock, and transfers of stock, less attractive. Section 31 (2) repeals this increase in favour of 'new local authority stock', i.e. local authority stock issued after the beginning of 1953. At the same time the composition duty for such stock under the Stamp Act, 1891, Section 115, is reduced by 1s in the £100. The concession applies after the end of July 1953.

'Stock' means stock within the meaning of the Local Government Act, 1933, or the Local Government (Scotland) Act, 1947, issued by a 'local authority'. This is defined as

'any authority being, within the meaning of the Local Loans Act, 1875, an authority having power to levy a rate and any local authority within the meaning of the Local Government (Scotland) Act, 1947, and includes any statutory authority, commissioners or trustees to whom Section 270 of the last-mentioned Act applies'.

Section 31 (3) provides that Section 31 shall be construed as one with the Stamp Act, 1891.

Section 32: Excess Profits Tax Post-war Refunds

Part IV of the Finance (No. 2) Act, 1945, provides for the refund of 20 per cent of all 100 per cent excess profits tax paid, provided that undertakings were given to expend the refund in developing or equipping the business and to retain the refunds until so expended. In certain cases undertakings

could be accepted to expend the money on a successor business. The administration of the scheme was entrusted to a Treasury Advisory Panel. If undertakings were broken, the Treasury could recover the money refunded.

Section 32 is designed to free these refunds from further control, and was introduced by the Government on the advice of the Advisory Panel itself. It was announced in the House of Commons on June 17th, that of a total of £263 million, there had already been refunded £253 million, only £100,000 of which had had to be recovered. This means that the remaining £10 million can be recovered from the State without giving an undertaking, while the £253 million ceases to be earmarked against development or re-equipment. It is accordingly available for distribution to shareholders and proprietors.

Section 32 (1) provides that no further undertakings shall be required, while Section 32 (2) provides that, subject to the provisions of the section, undertakings already given shall become inoperative on the commencement of the Act (July 31st, 1953). As regards groups of companies, the excess profits tax was deemed to have been paid by the principal member (Finance (No. 2) Act, 1945, Sixth Schedule, paragraph 3), so that it was the principal member which received the refund for the whole group. It is now provided that where that principal member has ceased to exist, the refund can be paid to the individual member concerned (Section 32 (3)).

Refunds were to be paid under deduction of income-tax for the year 1946-47, but the taxpayer has an option to be charged by assessment for the year 1947-48 instead, in which case the tax deducted was to be treated as a payment on account of 1947-48. The time limit for 1947-48 assessments is extended, to three years after the end of the year in which the refund was made (Section 32 (4)).

Section 32 (5) makes it clear that any forfeiture of refund already incurred is not excused by Section 32. However, Section 38 (6) relaxes this in the case of a permanent discontinuance of a business before July 31st, 1953, where, in the case of the person who carried on the business, all the three following conditions are satisfied:

- (a) during the period between the discontinuance and (July 31st, 1953) there has at all times been another trade or business in relation to

which he could have given such undertakings and authorities as, under the proviso to (Finance (No. 2) Act, 1945, Section 41 (1) (c)) would have excluded the application of the said paragraph (c) to the discontinuance;

(b) he has not, before (July 31st, 1953) refused to give the said undertakings and authorities; and

(c) the advisory panel have not, before the said

date, reported under Section 42 (3) of the said Act that the sum has become due to the Crown'.

The remaining three sections of the Finance Act, 1953, deal respectively with proceedings for customs and excise penalties, the provision as to the annual charge for the national debt, and the short title, construction, extent and repeal.

(Concluded.)

SCHEDULE A: ADDITIONAL ASSESSMENTS

by PETER WHITWORTH

ONE of the more dangerous generalizations about income-tax is the one to the effect that a Schedule A assessment cannot be increased in a continuation year except in the case of new or structurally altered property. An increase may result from other circumstances; on the other hand, structural alterations do not necessarily give the Inland Revenue the right to increase the assessment. Although 'excess rents' provisions have reduced the importance of the point, it is still of significance, particularly for owner-occupiers.

The Income Tax Act, 1952 (which in effect re-enacts the pre-1952 legislation), by Section 84 (1), provides for a general revaluation of property chargeable to Schedule A or B tax, for such tax year as Parliament may determine and for each fifth year afterwards. Subsection (3) provides that:

'The annual value of any property which has been adopted for the purpose of income-tax under Schedules A and B for any year of assessment shall be taken as being the annual value of *that property* for the same purpose for the next year of assessment, unless that year is a year of revaluation.'

There is a proviso to Section 84 (3) which empowers the subject to appeal against the annual value in a continuation year. The Commissioners would have power, on the hearing of such an appeal, to increase the assessed annual value instead of reducing it. However, that is not a very important qualification of the generalization.

The words 'of that property' which I italicize are the significant ones for our present purpose. Section 84 (3) presupposes that the identical piece of property is being assessed in the continuation year, i.e. in a year which is not a revaluation year. The corresponding enactment which was in force in 1906 was in substantially the same form. Discussing it in *Turner v. Carlton* ([1909] 5 T.C. 395), Channell, J., said (page 400):

'Of course, if there had been any real change in the property itself, then there would be no amount adopted for that property which you would now

be considering in this year -- no value adopted for that last year at all because there had been an altered property.'

Structural Alterations

Although *Turner v. Carlton* was not in any way concerned with structural alterations, this dictum is much relied on in support of the generalization quoted at the beginning of this article. It was specifically applied by the General Commissioners in *Thornley v. Brown* ([1929] 15 T.C. 459; 8 A.T.C. 400), where they confirmed an additional assessment on a shop, warehouse and other premises which had been the subject of 'extensive alterations'. This case is no doubt largely responsible for the general notion that only building operations authorize an additional assessment.

The original subject matter of the appeal in *Thornley v. Brown* was the *quantum* of the assessment; the appellant had not argued that there was no power to make the additional assessment at all. Rowlatt, J., questioned the existence of such a power when the appeal came before him. The Court of Appeal sent the case back to the Commissioners to consider whether the power did exist but, again, neither party argued the point before the Commissioners, who confirmed the assessment and announced that if the point *had* been taken, they would have rejected it on the authority of the dictum of Channell, J., in *Turner v. Carlton*. The case stopped there, so it provides no judicial authority for the generalization.

The authority for each year's Schedule A assessments lies in the Finance Act which imposes tax for that year. It imposes tax on the properties as they exist in the year, not as they existed in the last revaluation year. Of course, each unit of assessment adopted will normally be identical with the one adopted for the previous year and the application of Section 84 (1) will not be in doubt. But, taking the country as a whole, there

are certain to be many changes, not all of them resulting from building operations.

Coastal erosion may have removed or drastically altered some of the preceding year's units of assessment, while elsewhere the sea may have receded, creating new ones.

Splitting of Land into Distinct Occupations

An owner-occupier of a tract of land hitherto assessed as one unit may sell part of it to a new owner-occupier. If the assessment for the year has already been made, the Income Tax Act, 1952, Section 108, provides machinery for apportioning the tax (not the assessment) between the two occupiers. But when assessments are made subsequently, it is manifest that there are now two separate units of assessment in place of one. Neither is identical with the old plot, so two new annual values must be arrived at and there is nothing in the Income Tax Acts which requires that the combined new annual value shall not exceed the former annual value. Indeed, the very fact that a small plot has been sold off may raise the presumption that that part of the land has increased in letting value, and may also indicate an increase in value of the land retained. In practice, it is usual to split the old assessment in proportion to the areas of the two constituent plots, but this is because the value of land as such normally changes slowly.

In general, where the owner-occupier decides to let part of his land, the same result must follow. Of course, if he lets it for less than a year he remains assessable in place of the occupier, so that there is no administrative difficulty in continuing to assess the whole plot as one unit. However, there is an instance of an additional assessment being made where part of a plot of land has been let for less than one year. It is *Moray Estates Development Co v. C.I.R.* ([1951] 32 T.C. 317; 30 A.T.C. 300).

In that case a large area of woodlands in single ownership was the subject of a single Schedule A assessment. In 1942 the owners let to a company an eighteen-acre plot containing gravel deposits with the right to remove the gravel at a royalty of one shilling a ton. The lease was for nine months and thereafter subject to one month's notice. Following the decision in *Russell v. Scott* ([1948] 30 T.C. 394; 27 A.T.C. 199), a separate Schedule A assessment was raised on the gravel pit for 1948-49 and based on the amount of royalties. Holding that the assessment should be confirmed, the Lord President said (page 323 in T.C.; 303 in A.T.C.):

'In 1942 the appellants elevated this gravel-pit into a distinct and separate subject of occupation as the terms of the lease show and I should have thought that for income-tax purposes (as unquestionably for rating purposes) it then became a suitable subject for separate assessment from the woodlands which surrounded it or the estates of which it formed a small part.'

Houses and Other Buildings

The same principle does not apply where the owner of a house or building lets one or more parts of it, for the Income Tax Act, 1952, Section 109 (1) (c) makes it clear that the owner continues to be assessable and the house or building remains a single unit of assessment, even though the letting be for more than a year.

Section 109 (1) (c) presupposes a common landlord for the whole building. Where there is divided ownership, Section 113 applies. It provides:

'Where a house is divided into distinct properties and occupied by distinct owners or their respective tenants, such properties shall be separately assessed and charged under Schedule A on the respective occupiers thereof.'

The word 'house' is invariably construed as including other buildings.

The combination of 'distinct properties' and 'distinct owners' seems to be tautologous, for the former is implied in the latter and it does not appear to be necessary to have any structural separation, notwithstanding the widespread belief to the contrary.

Thus the owner-occupier of a building cannot lose the advantage of retaining last year's annual value merely by letting part of the building, but if he sells part of it, two new separate subjects of assessments arise, even though no physical alteration takes place, and increased assessments may result.

Where the division occurs after the assessment for the year has been made, the tax for that year can possibly be apportioned under Section 108, mentioned above. Although the section refers only to 'land', that expression is often construed as though it included buildings.

Again, if the owner or lessee alters a building physically to such an extent as to create a new property (a question of fact) the authorities are not bound by last year's annual value. However, it seems that in practice the annual value is automatically increased wherever there are structural alterations, notwithstanding the remark of Rowlatt, J., in *Thornley v. Brown* that it was 'very, very wrong'.

THE ACCOUNTANT AS FINANCIAL ADVISER – I

by K. A. E. MOORE, F.C.A.

Introduction

WHEN I was asked, nearly a year ago, if I would be prepared to present to this autumnal meeting a paper on the subject of 'The accountant as financial adviser' and in an unguarded moment accepted the invitation, I consoled myself with the thought that, after all, the occasion was a long way ahead and no doubt everything that could usefully be said on the subject had already been said and recorded and would be available for my assistance in preparing this paper.

Well, the months slipped by and when, at last, I addressed myself to the task I was astonished to find that there was an almost complete absence of any literature on the subject and, so far as I know, nobody has previously attempted to deal with it in a comprehensive way. I was therefore left with no alternative but to start from scratch, so to speak, and to think the whole subject out for myself on the basis of my own experience – a salutary but painful process.

It is indeed rather curious that the tremendous development in the range and usefulness of a chartered accountant's work over the last half-century should have occurred without the phenomenon being recorded in a wealth of literature or, at least, in some classic treatise which would be available to present and future generations. Of course, it has not passed entirely unnoticed as can be seen from passing references to it in presidential addresses and the like but, by and large, it seems to have been taken for granted.

I suspect that though many of us have had considerable experience as financial advisers, few of us have hitherto given conscious thought to the processes by which that experience has been acquired or by which it has become the natural thing for the public to turn to members of our profession for advice on financial matters.

Thus, the Council's suggestion that a paper on this subject was long overdue and should be delivered at this autumnal meeting was undoubtedly a happy one; whether its choice of the individual to deliver

it was an equally happy one is, I am deeply conscious, by no means free from doubt.

Background to Development of the Profession

As you can imagine, my researches have of necessity taken me back a century or more to the social and economic background from which a new profession was beginning to emerge. The industrial revolution; the growth in the size and cost of ships; the building of canals and, later, of the great railways; the rapid growth of the insurance offices, joint stock banks and similar institutions – all these and many similar developments of those times led to the evolution of corporate bodies designed to facilitate the subscription of capital not by a few individuals or families but by the public at large.

Thus it was that statutory and joint stock companies, and later the limited liability companies, which are common form today, came into being and with them arose the need for independent auditors to report to the shareholders on the accounts presented by the directors.

Meanwhile, the partners or proprietors of privately-owned businesses had generally kept their own books or, perhaps, in the larger businesses, the private ledger only, leaving other books to be written up by trusted employees. The partners themselves prepared the annual accounts and, in most cases, had no need to seek the assistance of practising accountants.

However, as time went on some of these businesses – a trickle at first – turned themselves into limited companies, but this trickle turned into a flood when statutory recognition of the private company was given for the first time in the Company Law Amendment Act, 1907 (subsequently incorporated in the Companies (Consolidation) Act, 1908).

Not only did all these new companies have to appoint auditors but the many financial questions which arose in the course of their formation – such as the amount and form of share capital and the proportions to be allotted as fully paid to the various interests – almost invariably led to consultation with the proposed auditors at a very early stage.



Photo: Hay Wrightson

Mr K. A. E. Moore, F.C.A.

A paper presented on October 8th, 1953, at the twenty-first autumnal meeting, in Scarborough, of The Institute of Chartered Accountants in England and Wales.

These early, intimate and confidential contracts between practising accountants and the proprietors of businesses in connection with their conversion to company structure, were, I believe, among the most important of the fundamental factors which led to the broad and rapid development of the accountancy profession in the early part of the twentieth century.

It is worth emphasizing that, initially, the work of the practising accountant in this connection was in an advisory capacity and that, thereafter, the annual audit maintained and cemented the relations thus established – for the directors of these newly-formed companies were not content to treat their auditors as mere watch-dogs for the shareholders but, in the years succeeding the formation of the company, formed the habit, quite naturally, of consulting them on all sorts of financial problems as and when they arose.

Formation of the Institute

Against this background it is interesting to refer to the early history of The Institute of Chartered Accountants in England and Wales. By the year 1879 there were several English associations of accountants including the Institute of Accountants which had been established in London in 1870. These various bodies had a total membership of about 600. Following a conference between their representatives a Bill was presented to Parliament in 1879 providing for the incorporation of the Institute, but eventually a petition for a Royal Charter was substituted. The Royal Charter was duly granted on May 11th, 1880; it incorporated these societies into one body 'The Institute of Chartered Accountants in England and Wales'.

That the work of these pioneers of 1880 was vastly different from that which is the lot of the professional accountant of today is clear from the wording of the petition for a charter; this stated, *inter alia*,

'That the profession is a numerous one and their functions are of great and increasing importance in respect of their employment in the capacities of liquidators in the winding-up of companies, and of receivers under decrees, and of trustees in bankruptcies or arrangements with creditors and in various positions of trust under Courts of Justice, as also the auditing of accounts of public companies and of partnerships and otherwise.'

It is interesting to note the order in which these functions were stated. First and foremost their work

remained family concerns or partnerships. Their financial affairs remained a jealously guarded secret and they would have regarded it as an outrage if the Inland Revenue had asked for accounts in support of their returns for an intermittently imposed income-tax of a few pence in the pound. As I have already mentioned, it was not until the early 1900s that their incorporation as private companies started to become the normal practice and that, as a consequence, they were required to appoint auditors.

The evolution of business from the small family unit to private company structure and thence by growth or amalgamation to full public company status has been a gradual process. But even in my working life the tempo has quickened considerably, spurred on by a host of influences amongst which, in particular, one should mention technological and scientific advances, growing taxation of profits and, latterly, the shadow of death duties of unparalleled severity.

All this and the growth of great new industries such as those concerned with electricity, oil production and distribution, the internal combustion engine, aircraft, wireless and the rest, have brought about far-reaching changes in the size and structure of the business unit and the complexity of its management involving accountancy and financial problems often quite outside the experience of those concerned with the actual management and thus calling for advice and guidance from professional accountants.

First World War – Taxation and Controls

But, to go back a little, I should, at this stage in my address, remind you that in the upheaval – political, economic and social – of the war of 1914–18 and the disorganization that followed it, the professional accountant was called upon to perform tasks which involved a very definite broadening of his activities.

That war brought with it an immediate increase in the scale and complexity of taxation of profits and in the strictness with which taxation laws were administered. This, and in particular the excess profits duty imposed for the first time in history in 1915, based on complicated provisions in relation to pre-war standards of profits and capital employed and levied at rates which staggered the whole business community and strained the morality of some, brought an unprecedented extension in the work of practising accountants.

Moreover, the handling of the enemy debts

process in 1919 and succeeding years there followed a succession of booms and slumps, flotations, liquidations, financial scandals, amalgamations, rationalization and the rest, all of which brought a spate of work of extraordinary and novel diversity to practising accountants.

It is greatly to their credit, if I may venture to say so, that, in the course of emerging from their hitherto rather cloistered activities at the behest of Government and the business community to tackle these multifarious problems, they retained their discipline and standards of integrity and greatly enhanced their reputation and prestige with the public.

Small wonder too that, in the process, many chartered accountants acquired great experience and developed a wisdom and ability in affairs of business ranging far beyond the fundamental technique of their profession, but nevertheless firmly based upon that sound foundation.

Thus it was that the habit was born in Government and business circles of looking to the qualified accountant for advice and guidance and for the diagnosis and treatment of the ills of the body economic – a habit which is now even more deeply ingrained as the result of the stresses and strains of the war of 1939–45 and of the distorted economy which has been our lot in the eight post-war years.

Membership of the Institute

But to return for a moment from these generalizations to the domestic affairs of our own Institute, the original membership on the granting of the Charter in 1880 was about 600 – today it is over 17,500, of whom roughly 7,000 are in practice as principals and 10,500 are recorded as being 'not in practice'. Of this latter group probably about one-quarter are qualified clerks in chartered accountants' offices, and most of the remainder are in industrial or commercial appointments.

Members in Industry and Commerce

Incidentally, I sometimes feel that the description 'not in practice' is something of a misnomer and may give the impression outside the profession that those in question are, so to speak, out of practice, which is very far from being the case.

Whilst on this subject, I do feel that it is extremely important that those of our members who hold industrial or commercial appointments should keep in close touch with the Institute as their mother society, and vice versa, and should play their part in the developments and evolutionary processes which are essential to the well-being of the profession. After all, the chartered accountant in industry is regarded, and rightly so, as no amateur but a pro. of the highest order, and on all counts it is highly desirable that he should retain his professional status and that his links with the Institute should, at all times, remain strong. He can do this by membership of a district society, of its committees

and sub-committees, including the Regional Taxation and Research Committees and by attending summer courses – not to mention autumnal meetings!

The Institute itself has given an important lead in this matter by amending its regulations in recent years to provide that a proportion of members of its Council shall be drawn from those 'not in practice'.

Directorships

Many chartered accountants 'in practice' hold directorships in both public and private companies and so do many of the chartered accountants 'not in practice', and some of the latter are members who, after many years of practice, have retired from professional life owing to increasing calls on their time from their directorships.

In this connection, a significant remark was made to me recently by someone (not an accountant) who holds a distinguished position in the City of London. He said:

'In my earlier years I often had experience of boards coming to wrong decisions because they had only half the story before them. Nowadays I always see to it that there is a chartered accountant on all my boards, not because he is necessarily wiser than any other person of experience in considering matters of policy, but because a chartered accountant, by his training, seems to have a flair for ensuring that all the material facts and considerations are before a board when they are making up their minds on an important matter with a financial angle to it.'

I mention this comment because I think it is of fundamental importance.

Not only is it becoming increasingly recognized that it is highly desirable to have on the board of any company one person at least with a thorough grasp of financial matters but, in the larger businesses, it is regarded as essential to have amongst their senior executives a qualified accountant as comptroller to deal with financial control, costings, budgeting, etc. Those who occupy such positions are, I need hardly say, on the high road to qualifying for broad general management because of their ability to interpret the outcome of technical processes and operations in commercial terms. The younger men in this field should be on their guard against taking too narrow and academic a view and should acknowledge and have respect not only for the pure technician but also for the broader considerations involved in management policy. To put it plainly, they should consciously train themselves to give due weight to these considerations and to avoid, like the plague, the narrow approach for which the accountant is, at times, criticized.

A Wide Field of Activity

But to return to the strict subject of my address – 'The accountant as financial adviser' – and particularly as I have, so far, dealt only with the broader aspects of the matter, I should perhaps refer, in

outline at least, to some of the manifold problems on which the business community comes for advice to accountants. They include investigations to ascertain the financial position of a business or its value to an intending purchaser; the financial aspects involved in the formation of companies, including the conversion of existing businesses to company structure; schemes of amalgamation or reorganization of share capital; taxation (a small word but a vast subject); the installation or organization and maintenance of advanced accounting systems with an eye to cost accounting and budgetary and statistical services to management; problems arising or likely to arise in relation to death duties; problems relating

to the marketing of shares and the raising of additional capital; investigations in relation to returns required by trade associations or Government departments; advice to Government departments on a wide range of problems; membership of or assistance to Royal Commissions whether on taxation, company law, terms of compensation on nationalization, and the rest.

There is, in fact, almost no end to the list which covers, as you well know, almost everything that happens in the birth, life and death of industrial, commercial and financial activity and, indeed, in the realm of modern Government so far as it impinges on such activities.

(To be concluded.)

WEEKLY NOTES

Design for Production Report

The report of the British specialist team which visited the United States last year to study how best design in the engineering and allied industries could be integrated with production was published last Monday.¹ Although technical in content, it gives many interesting examples, easily understandable by the layman, of how considerable savings in cost of production may be effected by simplification and modification of designs and by the more widespread use of standard parts. The team recommends that design policy in any organization should be clear and that it should be determined at the top level of management. Further, when once determined, the policy should be made known to everyone in the organization concerned in its application.

The team also recommends, *inter alia*, that particular problems should be tackled speedily by *ad hoc* committees drawn from the various relevant departments; that project engineers should be employed to supervise the progress of new designs from the initial research through engineering to ultimate production; and that thought should be given to the more restricted use of scarce materials when cheaper, effective substitutes can be utilized.

Conversion Result

The conversion offer to holders of the 1½ per cent Serial Funding stock has met with a most encouraging response. Results published this week show that out of an outstanding amount of £577 million, holders have taken up £522 million. Most holders have preferred to convert into the new 1957 bond rather than into the 1954 issue.

After meeting the redemption of unconverted 1953 Serial Funding stock the Government has available £316 million for the reduction of short-time debt. It may be that the Government departments have themselves taken up somewhere between £50 million and £100 million of the new stock, but even if this should prove to be so, the Government

still has over £200 million worth of new money. One of the most interesting consequences of the operation is the effect on the banking system. On the one hand, the large applications from the banks (and there can be no doubt that the banks have been very large subscribers to the new issues) will have reduced liquidity ratios to about 30 per cent and this is in itself mildly disinflationary. On the other hand, the banks have in a sense prescribed this medicine for themselves for very substantial applications for the new stock must mean that they expect the rate of interest to be held at least at the current level, and they must also have decided that there is little prospect of expanding advances to trade and industry to any significant extent for some time to come. It has been evident for a while that companies have been financing their requirements of working capital from their own liquid reserves rather than by increasing their liabilities with the banks.

Road Haulage Disposals

The re-sale of road haulage vehicles to private enterprise will commence in a few weeks' time. Preliminary arrangements have now been made for the transfer of the 10,000 vehicles from the Transport Commission which is to be completed by the end of next April. All vehicles are to be sold through tenders which will be invited by advertisements in the Press. There will be three schedules, each containing approximately 3,300 vehicles, and the first schedule will be advertised in November. In addition to the 10,000 vehicles a considerable number of other vehicles and properties will be offered for sale in the first half of 1954 as going concerns, and in these cases the offer to sell will take the form of share capital of companies.

A feature of the operation will be the offer of 2,000 vehicles in lots of up to four vehicles without premises. The general opinion is that the small man in the road haulage industry before it was nationalized was conspicuous for his enterprise and independence and it is clearly the intention of the Disposal Board that this part of the structure of the industry should be built into the new set-up.

¹ Obtainable (3s 6d post free excluding air mail) from the British Productivity Council, 21 Tothill Street, SW1.

FINANCE AND COMMERCE

Events in Trieste and British Guiana have brought uncertainty to stock markets and the upward movement in values which gained momentum at the turn of the month has been halted. Conditions are now far less favourable than they appeared to promise at one time for the marketing of shares in denationalized steel companies. A start to the new issue programme is to be made next week.

Amateur Theatricals

This week's reprint gives the accounts of the Stock Exchange Dramatic and Operatic Society. It is a type of account which many accountants will have been called upon to produce, especially in their private capacities, and we hope this example from one of the leading societies will prove of interest.

As with all amateur societies, the greatest asset is the enthusiasm of its members. The main difficulty in these days is rising costs of production. This was particularly felt in the Operatic Section's 100th production in the presentation of *Princess Charming*—the rise in stage expenses etc. will be noted. It was, moreover, a late production (in May) and close to the Coronation.

It is regrettable to read in the report that unless the result of the Operatic production improves next year, the society may be forced to curtail this to every second year or consider a joint production with another operatic society. Most of the other leading City dramatic and operatic societies, it is pointed out, are subsidized in some way or another. This one is not.

By Request

The names of the companies forming the group are given by Mr Joseph W. F. Causton in his statement as chairman of Sir Joseph Causton & Sons Ltd, general printers, lithographers, and wholesale stationers. They comprise the main company, printers at London and Eastleigh; A. & E. Walter Ltd, London printers; Whitehead Morris Ltd, London printers; Cockayne & Co Ltd, London printers; Hodgetts Ltd, London publishers; and the Press Etching Co Ltd, London process engravers.

We regard it, however, as a rather sad admission that it should have been necessary for shareholders to have requested this information. Mr Causton says he was asked for it at the last year's annual meeting.

Time and again we have urged that company reports should be informative in this respect. They should at least state the type of business conducted and the names under which it is carried on. This much is due to shareholders as the members of the company. But it can, moreover, be made into real publicity material. Many companies do, in fact, make their annual report part of their general publicity and advertising programme.

Opencast Coal

John Laing & Son (Holdings) Ltd, civil engineers, is going out of opencast coal production in which it has for some years mined about a million tons a year. Mr J. W. Laing, the chairman, states that the board reached this decision with considerable reluctance, in view of the importance of coal production. Under present conditions, however, they regard the business as 'extremely risky'. Mr Laing leaves it at that.

As we understand the position, however, the difficulty seems to be in the National Coal Board's conditions of contract. The price of opencast coal delivered, we gather, is fixed in the contract on the basis of the board's own information regarding terrain etc. which is not available to the contractors and cannot be checked by independent survey.

There is no arbitration clause in these contracts, and while provision is made against the making of excessive profits by contractors, there is no *quid pro quo* in the form of an escalator clause which will cover rising production costs.

In this company's case, plant will become increasingly idle pending disposal as contracts run out this year.

Purchase Tax

Reports from the distributing trades show that the seasonal anticipation of a possible reduction in purchase tax has come earlier this year. Orders on wholesalers are being curtailed. One hears a lot about the bad effects of this tax. In the statement by Mr J. Harold Mandleberg, chairman of Harbens Ltd, the viscose silk manufacturers, there is a further instance of the damage being done especially in trade in high-class goods.

Mr Mandleberg declares that purchase tax, even with the modification of the 'D' scheme, is acting as a powerful brake on the development of new fabrics. We know of instances, he says, where certain high-grade fabrics are not made because they would come over the 'D' line.

A manufacturer can hardly be expected to speculate by making high-class fabrics for export, Mr Mandleberg says, which if not completely absorbed in overseas markets, will be priced out of the home market by a tax.

Thus the mediocre is encouraged at the expense of high-grade craftsmanship and enterprise. Our textiles, says Mr Mandleberg, are actually debased.

Money Market

Treasury Bill applications totalled £359,495,000 on October 9th and bidding at £99 9s 4d, the market obtained 49 per cent of requirements. Only £230 million of the £250 million offered was allotted with the average rate at £2 2s 7.36d per cent. This week's offer is £230 million.

STOCK EXCHANGE DRAMATIC AND OPERATIC SOCIETY

Balance Sheet July 31st, 1953

	1952	Folio 1 Dr.	Cr.
£	£ s d	£ s d	£ s d
Revenue Account:			
Balance as per Balance Sheet, July 31st, 1952 ..	268 4 1		
Less Balance as per Account folio 2	141 13 11		
	126 10 2		
Donations:			
Balance as per Balance Sheet, July 31st, 1952 ..	303 9 9		
Add Amount received during Season 1952-53 ..	29 10 0		
	332 19 9		
Less Amount transferred to Operatic Section Production Account	130 0 0		
	202 19 9		
Credit Balances In Reserve ..	4 7 0		
S Creditor ..	5 5 0		
	£339 1 11		
	£610		

AUDITOR'S REPORT TO THE MEMBERS OF THE STOCK EXCHANGE DRAMATIC AND OPERATIC SOCIETY

We have examined the above Balance Sheet with the books and records of the Society. The above Balance Sheet is, in our opinion, properly drawn up so as to exhibit a true and correct view of the state of the Society's affairs at July 31st, 1953.

5 Cheapside,
London, EC2.
September 3rd, 1953.

(Signed) NICHOLSON, BEECROFT & CO,
Chartered Accountants.

General Revenue Account for the Season 1952-53

1952	Folio 2	Folio 3				
Dr.	Cr.	Cr.				
£	s	d	£	s	d	
To Subscriptions credited to the Dramatic and Operatic Production Accounts	810	0	0	768	..	..
" Printing, Postage and Sundries	85	11	3	8	..	..
" Amount transferred to Operatic Production Account	100	0	0	—	..	..
" Audit Fee	5	5	0	6	..	..
" Balance transferred from Dramatic Production Account	55	6	9	116	..	..
" Balance transferred from Operatic Production Account	..	..	..	41	..	..
	£1,056	3	0	£939	..	..
				£1,056	3	0

Dramatic Section - Production Account, Season 1952-53

	Dr.	Cr.	Folio 3
	£	£ s d	£ s d
To Stage Expenses, Costumes and Properties	609	698 15 11	233
" Hire of Theatre and Rehearsal Rooms	435	411 5 0	102
" Producers' Fees	60	.. .. .	90
" Performing Rights	40	.. .. .	2,173
" Insurance	7	.. .. .	350
" Printing, Postage and Sundries	159	.. .. .	600
" Amounts paid to Charities	2,197	.. .. .	—
" Balance carried to Revenue Account, Folio 2	41	.. .. .	.. .. .
		£2,308 3 3	£2,308 3 3

STOCK EXCHANGE DRAMATIC AND OPERATIC SOCIETY

Operatic Section - Production Account, Season 1952-53

1952	1952					Folio 1
Dr.	£	£	s	d	£	Cr.
582 To Stage Expenses, Costumes and Properties	762	2	8		283	15 0
262 " Hire of Theatre and Rehearsal Rooms	240	0	0		117	3 8
360 " Orchestra and Accompanist Charges	293	3	6		64	14 0
105 " Producer's Fee	105	0	0		1,051	2 1
137 " Performing Rights	125	0	0		450	0 0
9 " Insurance	8	9	1		437	10 0
119 " Printing, Postage and Sundries	149	2	3		100	0 0
1,537 " Amounts paid to Charities	1,051	2	1			
— " Balance carried to Revenue Account, Folio 2	150		5	2		
					£100	0 0
					130	0 0
					230	0 0
					£2,734	4 9
					£3,111	

Charity Fund Account for the Year ended July 31st, 1953

Dr.	£	s	d	£	s	d	Cr.
To Balance brought forward:							
£1,300 3 per cent Defence Bonds	1,288	8	0				238 8 0
Cash at Lloyds Bank Limited	72	15	1				101 6 2
— " Amounts received from the Help Yourself Society as a participating				1,361	3	1	
Charity				226	10	0	
Donations				12	3	3	
Net Sale of Princess Charming Programmes				25	0	0	
Proceeds on sale of £700 3 per cent Defence Bonds	708	3	7				
Less Cost thereof	693	15	0				
Surplus on sale				14	8	7	
Interest on Defence Bonds				53	11	0	
				£1,692	15	11	
							£1,692 15 11
By Donations to Charities							
" Printing, Postages and Sundries, including part cost of charity programmes							
" Balance carried forward:							
£1,160 3 per cent Defence Bonds (including £560 Bonds purchased during year for £558 8s 0d)							1,153 1 0
Cash at Lloyds Bank Limited							200 0 9
							1,353 1 9
							£1,692 15 11

(Signed) H. L. BEDWELL, Hon. Treasurer
R. G. WILLIAMS, Hon. Secretary

AUDITORS' REPORT TO THE MEMBERS OF THE STOCK EXCHANGE DRAMATIC AND OPERATIC SOCIETY

We have examined the above account with the books and records of the Society and have obtained all the information and explanations we have required. The account is, in our opinion, properly drawn up so as to exhibit a true and correct account of the Receipts and Payments for the year ended July 31st, 1953.

S. Cheapside,
London, EC2.
September 3rd, 1953.

(Signed) NICHOLSON, BEECROFT & CO.
Chartered Accountants.

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Recommendations on Accounting Theory

SIR, -

Oh! Professor Baxter whatever shall we do
With the Recommendations disapproved by you?
Must we withdraw them, in deference to your ban,
Or ignore the views unpractical of an academic man?

Yours faithfully,

London, EC4.

B. H. BINDER.

Valuation of Stock-in-trade

SIR, - Although I am with Mr Briscoe in his refusal to accept 'replacement profit', I must disagree with his remarks on stock-in-trade at page 421 of your October 10th issue:

'The next major step is undoubtedly to establish that writing down stocks to market price must be by way of allocations out of profit, not a charge against profit, for how can honest men certify as true the definite cash profit made on the sale of units A-F, to use my example, after reducing that definite sum by an amount which it is thought or indeed is definitely known, will be lost on the sale of units G and H. That should be a transfer to reserve, thereby disclosing the extent of management's lack of foresight, in short, what bad buyers they are.'

The valuation of stock-in-trade on the basis of the lower of cost or market value is sound in principle - like a good many rules laid down by our ancestors in the profession. The cost of stock-in-trade can properly be upheld in the balance sheet provided all the indications are that the stock will later be sold at a profit. The balance sheet figure does not purport to be the *value* of the stock; it is no more than an historical record of money expended in acquiring assets which are considerable to have a value *not less than cost*.

But if the stock is considered to have a realizable value of less than cost, then the inclusion of the full cost in the balance sheet is not a tenable proposition. The full cost needs dividing into two parts:

- (a) the realizable value, which is the part of the original cost that can properly be carried forward as being recoverable;
- (b) the excess of cost over realizable value, *which is a loss already incurred*, and therefore a charge against current revenue.

In amplification of (b), I would add that you do not 'make' a loss by selling an article for less than cost. You only *measure* the loss. The loss is that part of the original cost which you do not recover on sale and it seems clear to me that it was lost when the money was expended. What happens when the article is sold is that you get back the part you haven't lost. (A sale at a profit is different. You do then 'make' a profit because you get back the whole amount originally expended plus something you didn't have before.)

It follows from the above that I do not support any interpretation of 'market value' other than realizable value. If replacement value happens to be lower than realizable value and lower than cost, the effect of using the replacement value is to pretend that in the next period a profit will be made equal to the amount by which replacement value falls short of realizable value (or, if realizable value exceeds cost, the amount by which replacement value falls short of cost). A real bit of 'replacement profit'!

Yours faithfully,

1880 AND ALL THAT.

Consolidation Query

SIR, - I notice you commend in your first leading article of October 3rd, the suggestion

'... that in any statement of group results, the aggregate profits and the aggregate losses should be disclosed separately.'

as

'... a course of action which, if made current practice, would help to discourage possible abuse of the rather inconclusive sections of the Companies Act which deal with consolidation.'

Section 152 (1) of the Act requires group accounts to give a true and fair view of the profit or loss of the company and its subsidiaries as a whole so far as concerns members of the company. Subsection (3) requires consolidated accounts to comply with the requirements of the Eighth Schedule so far as applicable thereto. The Eighth Schedule (paragraphs 17 and 18) requires the consolidated profit and loss account to combine the information contained in the separate profit and loss accounts of the group companies and to comply as far as practicable with the requirements of the Act as if they were the accounts of an actual company. There is nothing inconclusive in any of these requirements. It is true that paragraph 15 (4) is badly drafted but it leaves no doubt that the information required is 'the net aggregate amount . . . of the subsidiaries' profits after deducting the subsidiaries' losses (or vice versa)'. What is the possible abuse of the legal requirements which you wish to discourage and is there evidence of any such abuse in practice?

Surely the only, and not merely the main, purpose of consolidation, so far as shareholders are concerned, is 'to expand the parent company's accounts to show [*a true and fair view of*] the aggregate financial and trading position of the complete group'. (The words in italics are not part of the quotation.) The question of the extra legal information to be disclosed in consolidated accounts in order to give a true and fair view raises an entirely different issue - not peculiar to group accounts - and it is at least doubtful

whether 'revelation' would replace 'obscurisation' if aggregate losses and aggregate profits were disclosed separately. Profits and losses of a holding company and of its subsidiaries frequently cannot be considered in isolation and are dependent upon policy and inter-company arrangements made in the best interests of the group as a whole: a statement of aggregate group profits and aggregate group losses would often be misleading. Would not a corollary to the proposal be that a similar segregation of profits and losses should be made when a company operates through branches instead of through subsidiaries?

Yours faithfully,

London, EC2.

R. KETTLE.

SIR, - Your leading article of October 3rd instances the case of a subsidiary which has made a trading loss large enough to transform the profit and loss account carry-forward into a debit balance. In the consolidation, this loss is offset by the aggregate profits of the other subsidiaries, but the question is posed - does the holding company's own profit and loss account reflect a true and fair view of its trading outcome if it does not make an appropriate provision therein for that part of the loss incurred by the subsidiary not covered by that subsidiary's own reserves?

On the facts given, surely the answer is certainly it does. In a consolidated profit and loss account the first item is usually trading profits (less losses) of parent and subsidiaries. Taxation, other suitable expenditure and profits (less losses) retained in the accounts of subsidiaries are deducted leaving the net profit of the parent for the year. It is obvious from the wording that provision has been made for losses of subsidiaries by offsetting against profits of other subsidiaries, so what is the point of providing for the losses for a second time by a transfer to a reserve in the accounts of the parent?

In the consolidated balance sheet the amounts carried forward on profit and loss account of all the companies are merged into one figure. Provision is made for debit balances of subsidiaries by deducting them from credit balances of other subsidiaries, so why deplete the credit balance of the parent for a loss already covered in the consolidation of the subsidiaries?

If, as a result of the year's trading there are no profits retained in subsidiaries for the year, but an aggregate loss, then no doubt the parent should provide in its accounts for this decrease in the net assets of the subsidiaries, but these circumstances were not envisaged in your article.

There is one further point. It is mentioned in the article that in any statement of group results, the aggregate profits and the aggregate losses should be disclosed separately. If the names of subsidiaries incurring losses are not given, I cannot see any advantage in this disclosure, and I could imagine a lack of enthusiasm in boardrooms to the disclosure of names. The trend of taxation legislation is towards

regarding a group as one unit. There are the provisions under Section 469, Income Tax Act, 1952, regarding inter-company sales of fixed assets, group treatment for profits tax purposes, and now under the 1953 Finance Act, subvention payments for income-tax purposes. I imagine most accountants would consider the Revenue is proceeding down the right road.

Yours faithfully,

London, EC3.

E. C. HAYLLAR.

Builders' Cost Records

SIR, - The cost records of a certain firm of building contractors are centralized at head office and form an integral part of the financial books.

To avoid delay, it is desired to charge the contract cost ledger with materials from merchants as soon as these are delivered to the site, rather than to await the subsequent arrival of the purchase invoice.

I should be most interested to hear of a proven method of achieving this object.

Yours faithfully,

North Harrow, Middlesex.

J. G. MEEK.

Stock Control System for Seed Warehouse

SIR, - We shall be glad to learn whether any of your readers could assist with suggestions for a simplified, yet practical, method of stock control in a small seeds business.

The trade is essentially seasonal and during each year seeds are bought in bulk, made up into various mixtures according to farmers' requirements, and dispatched against a multitude of comparatively small orders.

This makes any normal method of stock control by bin-cards etc. most difficult to operate and the problem of ascertaining book stocks to compare with physical is at the moment tackled by extensive workings at the end of each season.

Almost inevitably there are under this system numerous differences which are always difficult to explain and which it might be possible substantially to reduce by some improved method of stock control.

Yours faithfully,

SEEDS.

A Bing of Blaes

SIR, - The following quotation from a taxation reference book, under the heading of 'Allowable expenses' is submitted for the benefit of your readers who may be unaware of its introduction into taxation case law in 1952.

'Cost of blaes used during the year being part of a lump sum paid for a bing of blaes.'

Even to me, a struggling Final student, its considerable benefit to the taxpayer is obvious!

Yours faithfully,

CROSBY.

THE INSTITUTE'S TWENTY-FIRST AUTUMNAL MEETING SUCCESSFUL OCCASION AT SCARBOROUGH

True to tradition, and as the many who attended the twenty-first autumnal meeting had expected, a proverbial north country welcome to Scarborough was extended by the committee and members of The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants who were the hosts on this 'coming-of-age' occasion.

Over 500 members and ladies were present during the three days of the meeting – Thursday, Friday and Saturday of last week – when the weather was as sunny and as warm as at the previous autumnal meeting in Torquay in 1951. As this was too large a number to be accommodated at one hotel for the opening and concluding luncheons and the banquet on Friday, these functions were duplicated and members were divided between *The Grand Hotel* and *The Royal Hotel*, each group being composed of approximately the same number of members of the Council, presidents of district societies and members and ladies.

The meeting opened officially on the Thursday morning at the Olympia ballroom with an address of welcome by Councillor N. Walsh, M.B., CH.B., J.P., Mayor of Scarborough, who was introduced by Mr James Blakey, F.C.A., President of the Institute.

In the course of his speech, Councillor Walsh spoke of the high regard in which chartered accountants are held and made an amusing allusion to a possible new disease 'income-tax melancholia', which he, as a doctor, expected to have to treat at any moment. Mr Blakey proposed a vote of thanks to the Mayor and introduced the members on the platform who were:

Mr D. V. House, F.C.A., (*Vice-President of the Institute*); Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (*President, The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); Mr H. Garton Ash, O.B.E., M.C., F.C.A. (*A Past President of the Institute*); Sir Harold M. Barton, F.C.A. (*A Past President of the Institute*); Sir Bernhard H. Binder, F.C.A. (*A Past President of the Institute*); Mr E. T. Coulson, F.C.A. (*Chairman of the Scarborough and District Group*); Sir Russell Kettle, F.C.A. (*A Past President of the Institute*); Messrs Alan S. MacIver, M.C., B.A. (*Secretary of the Institute*); T. B. Robson, M.B.E., M.A. (*Immediate Past President of the Institute*); Gilbert D. Shepherd, M.B.E., F.C.A. (*A Past President of the Institute*); G. R. Smith, F.C.A. (*Chairman of the Grimsby and North Lincolnshire Group*); C. M. Strachan, O.B.E., F.C.A. (*Member of the Council of the Institute*); H. F. Strachan, F.C.A. (*Vice-President of The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants and Hon. Conference Secretary*).

The President's Address

In the course of his Presidential address, Mr Blakey said:

In the first place I extend to you all a warm welcome to the twenty-first autumnal meeting of members of the Institute, with its opportunity of renewing old friendships and making new ones. This year we have with us 288 members of the Institute, and I am particularly glad to know that they include 5 lady members.

The year 1953 will ever be remembered for the Coronation of our well-beloved Queen, and I am sure we all hope that in this new Elizabethan era our profession will seize upon every opportunity of contributing to the nation's prosperity. We have contributed much in the past and we can contribute much more in the future.

Meetings such as this give us the chance, brief though it may be, of getting to know our fellow members and entering into discussion on the papers presented to us and on many other matters peculiar to our professional activities. On this occasion we have two papers which I am sure will not only instruct but will also stimulate discussion and thought.

One is by Mr K. A. E. Moore, F.C.A., a member of the Council of the Institute, on 'The accountant as financial adviser', and the other is by Mr E. N. Macdonald, D.F.C., F.C.A., a member of the Taxation and Research Committee, on 'The excess profits levy'.

Our meeting will not be confined to business activities. Our excellent hosts, the Hull, East Yorkshire & Lincolnshire Society of Chartered Accountants, have arranged a programme of visits and entertainment to enable us to indulge in the more social and beneficial virtues of the county of Yorkshire.

It was in my native city of Manchester that the first autumnal meeting was held in 1886, and I now have the honour in 1953 of presiding over the coming-of-age meeting in the neighbouring county of Yorkshire. It is not only a neighbouring county, but a neighbourly county. It is true that the War of the Roses did not really end when the history books say it did. It is still going on, but fortunately the method of warfare is conducted in the friendlier and less lethal atmosphere of the cricket ground. Perhaps we might even think in terms of 'Ashes of Roses'.

Membership of the Institute

Since the last autumnal meeting in Torquay in 1951, the membership of the Institute has increased from about 16,100 to about 17,600. Every increase in our membership brings about an increase in the work which goes on at Moorgate Place and, what is more important, an increase in the number of chartered accountants available to serve the public and to maintain and enhance the Institute's reputation.

For more than a decade the Council has made every effort to be of direct assistance to members of the Institute by means such as the recommendations on accounting principles, the booklet on the Companies Act, and a considerable number of pamphlets or reports dealing with subjects which are of importance to our profession. In much of this work the Council has had the invaluable assistance of the Taxation and Research Committee which itself has the assistance of fourteen regional taxation and research committees. Through this machinery, and through the annual conference of representatives of district societies with representatives of the Council, it can truly be said that the Council seeks the views of members in all parts of the country.

The subjects which in recent years have engaged the attention of the Council – and have caused its committees and the Institute staff a great deal of work – extend to a wide range of technical matters which before the war would have been regarded as entirely outside the scope of the functions of the Council. The subjects include not only those on which the Council decides to issue some document for the guidance of members, but also those on which the Council is invited to submit its views to others. Examples of the latter category are the massive memoranda submitted to the Royal Commission on Taxation of Profits and Income, and the memorandum submitted to the Number 2 Tucker Committee on Taxation Treatment of Provisions for Retirement, whose eagerly-awaited report will, whatever its contents, be particularly important to our profession.

The annual summer course is another of the ways in which the Council endeavours to serve the needs of members. Earlier this year I had the privilege of attending the course at Christ Church, Oxford, in the capacity of newly-elected President. During the course, I visited each of the eight discussion groups and gave them an opportunity of asking questions on any matters concerning the profession. The experience was indeed stimulating. Only those who have attended a summer course can even begin to appreciate the furious enthusiasm which seems to fill our members as soon as they get inside the gates of Christ Church. We need have no fear about the future progress of our profession so long as this vigorous interest is displayed.

Institute's Income

One of the really important functions of our members is to provide the Council with the funds with which to carry on all this work. At the 1949 autumnal

meeting, Sir Russell Kettle, who was then President, mentioned that one of the Council's objectives was to restore the accumulated fund to at least its pre-war level. A little later in 1949 the revised rates of subscriptions were approved at a special general meeting and you will have seen from the latest report of the Council that at the end of 1952 the accumulated fund was slightly in excess of the 1939 figure.

The deficits incurred during the war and the immediate post-war years have therefore now been repaired, subject to any charge which may have to be borne in respect of staff pensions when the new scheme has been settled. But the restoration of the accumulated fund was not the only objective. An even more important objective was to ensure an annual income adequate to the needs of the Institute and all the activities it may wish to undertake. Any successful enterprise needs not only to be able to finance its current expenditure but also to be able to build up reserves, and this we are now doing.

The Council of the Institute

There was a time when some members were inclined to regard the Council as a sort of mutual admiration society of old gentlemen, who did not really care very much about the interests of the general body of members and cared not at all for those in industry and commerce. I do not think this was ever really true but the impression certainly existed. I do not think there is any excuse for such an impression continuing today. The Council is certainly not a body of old gentlemen and its membership changes with surprising rapidity.

Since 1937, when I became a member of the Council and ranked as number 45 in order of seniority, I have become ninth in seniority. A turnover of thirty-six in sixteen years would have been rapid enough, but in fact it has been even more rapid because a number of Council members have come and gone since I joined the Council. From 1946 the rate of turnover has accelerated considerably – twenty-seven new members in less than eight years. Indeed, there are only seventeen present members of the Council who have been on the Council for more than ten years and there are only six members who have been there for more than twenty years.

I doubt if this rate of change has been widely noticed or whether it is widely recognized that we have on the Council a well-balanced team, consisting of a considerable number of comparative newcomers whose energy and enthusiasm are sometimes tempered a little by the wisdom and experience of a handful of older members.

Our Future Members

Everything that our Institute does today or has done in the past, will eventually come to nothing unless we see to it that we have each year a flow of new members who will not merely add to our size but will also add to our stature and reputation. We



Mr James Blakey, F.C.A., delivers his presidential address at the opening session. Also on the platform (*left to right*): *front row* are Mr H. Garton Ash, O.B.E., M.C., F.C.A.; Sir Bernhard Binder, F.C.A.; Sir Harold Barton, F.C.A.; Mr C. W. Boyce, C.B.E., F.C.A.; Mr C. M. Strachan, O.B.E., F.C.A.; Mr D. V. House, F.C.A.; Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A.; Mr T. B. Robson, M.B.E., M.A., F.C.A.; Sir Russell Kettle, F.C.A. *Back row*: Messrs A. S. MacIver, M.C., B.A.; E. T. Coulson, F.C.A.; H. G. Sergeant, A.C.A.; D. C. Stuart Downs, F.C.A.; G. R. Smith, F.C.A., and H. F. Strachan, F.C.A.



Members leaving the conference hall at the end of the opening session

can only do this by recruiting for service under articles, the right kind of student and this rests not in the hands of the Council but in the hands of each practising member. It is a heavy responsibility, calling for great care.

When we are considering taking a person under articles, we should ask ourselves whether the candidate appears to have the educational and cultural background, the ability and the character which are likely in (say) ten years' time to enable him to be a successful practitioner or to hold a senior position in industry or commerce. I know it is difficult to visualize how a candidate will develop, but there are a good many indicators which we can look at and it is essential that our practising members should take the greatest possible care. A short trial period, as recommended by the Council, may often be desirable.

I know that differing opinions are held in regard to premiums and salaries. A majority of the articles now entered into are without premium and many of them carry a salary. There is, however, still a considerable number of articles for which premiums are paid or which provide for no salary. I do not wish to express any view on these matters. I think the Council said all that needs to be said, at any rate for the time being, in its statement of August 1946, which is available for everyone to see in the syllabus booklet. What I do want to say is this: when a member is considering taking a clerk under articles, the primary consideration should not be financial but whether the proposed article clerk is likely to become a worthy member of the Institute.

Service under Articles

Once the selection has been made and articles have been entered into, the principal has definite duties to perform. In the syllabus booklet there is a copy of the certificate which a principal is required to give, in support of an application for admission to membership by an article clerk who has passed the Final examination. This certificate is an important document and should not be signed without full realization of its significance. Its terms are a forceful reminder of the principal's responsibility to the Institute as well as to the article clerk.

It would do none of us any harm if about once a year we were to re-read the Council's statements about service under articles as set out in the syllabus booklet. After refreshing our minds in this way we could usefully ask ourselves whether the kind of experience and treatment generally which we are giving to our article clerks is up to the standard expected.

I do not believe in a lot of spoon-feeding, of which we see far too much in all walks of life today. An article clerk should learn to stand on his own feet and in his anxiety to equip himself properly he should be prepared to devote a good deal of his spare time to his studies. The world tends to be a hard place to live in and we are better fitted for it if we are brought up the hard way. Nevertheless, all principals should

see to it that they are not denying their article clerks any experience or opportunities, which they ought properly to have.

I suggest that every principal should consciously and conscientiously weigh up the position of each article clerk after he has completed not more than three years of the normal period of five years' service. Where there has been a failure in the Intermediate examination, some help can be derived from the additional detail which is now given in the failure notice and from reports from the students' society and tutors, but these are not enough. Only the principal has the means to assess those other qualities which are of the greatest importance in a professional man.

Even if a candidate has not been too bright in the Intermediate examination, he may well be worth encouraging because he has other qualities which are first-class. On the other hand, if an article clerk has a good brain but does not have the right kind of character and professional outlook he can later prove a menace to our Institute and a danger to the public. Again, if an article clerk is so lacking in ability and aptitude as to be really unsuitable for the profession he will just go on wasting his time failing the Intermediate examination time and time again, unless he is persuaded to seek some more suitable career. A principal should not hesitate to come to a mutual arrangement for cancellation of articles, whenever he is satisfied that the article clerk does not have the right aptitude, ability or professional outlook.

Activities of Students' Societies

One particular aspect on which I would like to touch is the activities of the students' societies. In spite of compulsory membership, these societies do not seem to be receiving anything like the support they should have from their student members. The societies have an important part to play, not as a means of providing examination tuition but as a means of enabling article clerks to take an interest in a broad range of subjects and to obtain the very real, but too often unappreciated, benefits to be derived from meeting other students and discussing problems with them. A great deal of voluntary work is done by the committees and officers of students' societies and all this work is worthy of better recognition than it seems at present to receive.

I hope that my remarks will be noted by both principals and article clerks and I look forward to the display of substantially greater interest in the work and activities of students' societies.

Duty to Communicate on a Proposed Change of Auditor

I am sure you are all familiar with the Council's statement of June 6th, 1951, about changes in appointment as auditor or professional accountant. The statement is reproduced at pages 144 to 145 of the members' handbook:

'It is the duty of any member of the Institute before accepting nomination for appointment as auditor or professional accountant to a company, partnership or private individual, to communicate with the previous auditor or professional accountant.

'The Council indicated in its statement of April 1937, that such communication should be made with a view to ascertaining the circumstances in which a change of auditor was proposed. Some members appear to have assumed that if the person proposed to be appointed believes himself to be aware of the circumstances in which the change is proposed, then he is relieved from the duty of communicating; the Council therefore wishes to make it clear that the duty to communicate exists in every case. It is essential that the member who is proposed for appointment, whether as auditor or as professional accountant, shall have an opportunity of knowing all the reasons for the change and this requirement can only be fulfilled by direct communication with the holder of the existing appointment.

'Apart from any question of professional courtesy it is important that the legitimate interests of the public and the independence of the existing auditor or professional accountant should be safeguarded and that a communication should take place even though the change is a matter wholly within the discretion of the appointer. The duty to communicate is not confined to cases where the previous appointment was held by a member of the Institute.

'Compliance with the duty to communicate will

not necessarily preclude the Disciplinary Committee from considering any complaint which may be made under clause 21 (3) of the supplemental Royal Charter.

'Where a member is invited to undertake special professional work for a company, partnership or individual, such work being in addition to that already being carried out by the client's auditor or professional accountant and where no question of replacement arises, it is normally desirable, as a matter of professional courtesy, for the member invited to undertake the special work to notify the client's auditor or professional accountant unless the client advances satisfactory reasons for the member not so doing.'

I will not read it to you. Information which reaches me from time to time suggests that there may be some misunderstanding about the nature of the communication which should be sent and the time at which it should be sent. I would therefore like to offer you some advice on these two points.

Reason for the Duty to Communicate

Although professional courtesy does enter into the matter, the primary reason for requiring a member to communicate with the existing auditor or profes-



sional accountant (who may not necessarily be a member of the Institute) is to give the member an opportunity of knowing all the reasons for the change, thereby safeguarding his own interests, the legitimate interests of the public and the independence of the existing auditor or professional accountant.

It is therefore inappropriate to make the communication in the form of a request to know whether the existing auditor or accountant has any *objection* to the change. None of us likes to lose business, especially if the client in question is one for whom we have acted for a great many years and to whom, so far as we are aware, we have given every satisfaction. We may well object to the change in the sense that we do not wish to lose a client. This is irrelevant so far as the proposed new auditor or accountant is concerned. What he wants to know is whether there is any *professional reason* why he should not undertake the work.

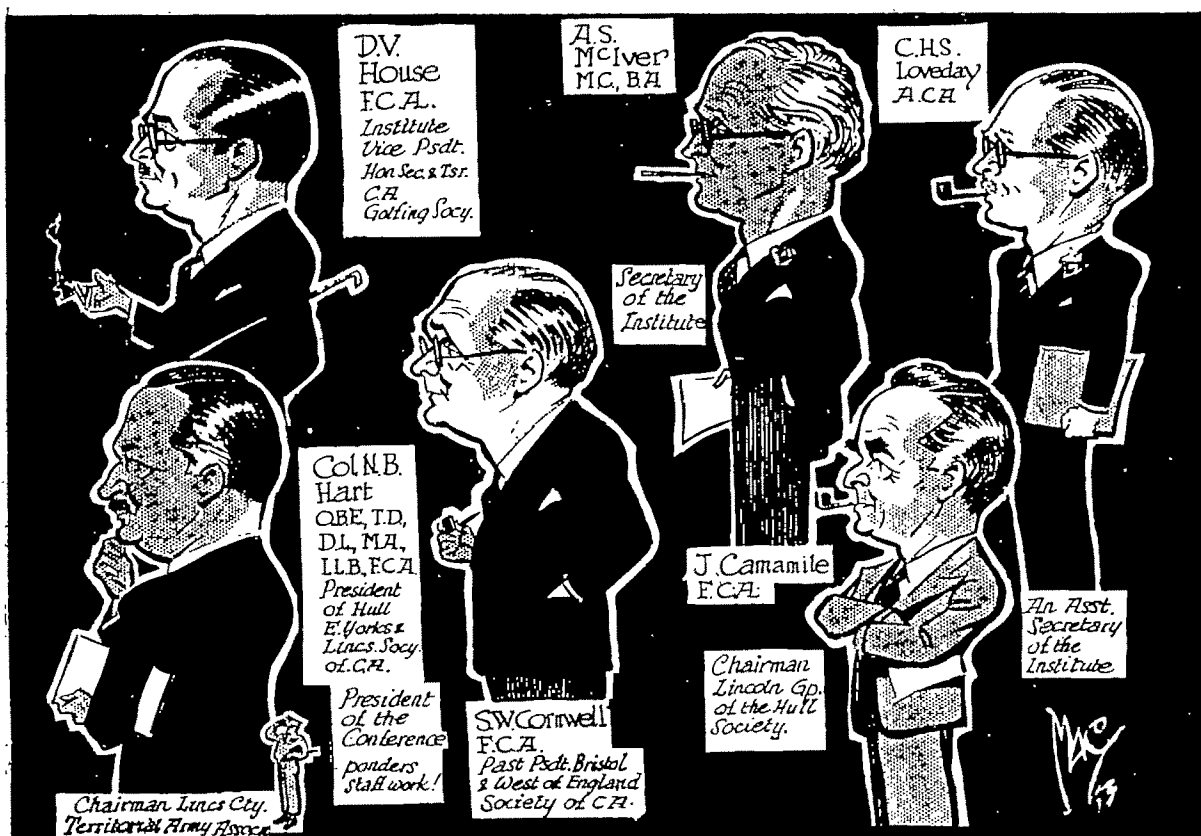
When the member has considered any information which the existing auditor or accountant may give to him, it is up to him to decide whether to accept nomination, bearing in mind that a client who has decided upon a change is likely to make a change in any event and may well be driven into the hands of an unqualified practitioner if he is not able to get a qualified accountant to undertake the work. The important feature is the duty to communicate. This enables the existing auditor or accountant to give any

information which he thinks the proposed new one should have.

When Communication should be made

As to the time at which the communication should take place, I think the best attitude is 'the sooner the better'. A member should certainly not allow his name to go forward for nomination (for example, in the notice convening a company meeting) until he has communicated. There is, unfortunately, nothing to prevent a company issuing a notice in which a member is named as proposed new auditor without that member's permission having first been obtained. This is a defect in the Act to which the Council has already drawn the attention of the Board of Trade. Cases have been known where a firm of accountants has been nominated and named in a notice issued by a company of which the firm had never even heard. Fortunately these cases are rare.

The usual position is that a member is approached by a company or other prospective client. When this happens, the member should immediately make it clear to the prospective client that before accepting nomination he is obliged to communicate with the existing auditor or accountant. The question then arises whether the first step should be taken by the member or by the prospective client. I think it is best for the member to ask the prospective client to inform the existing auditor or accountant of his



intention to make a change and to let the member know when this has been done, so that the member can communicate.

If the prospective client is not prepared to make the first move and the member wishes to undertake the work, he has no alternative but to take the first step himself by communicating with the existing auditor or accountant. There may be unusual cases where the prospective client refuses to allow any communication to be sent. The member's duty is then quite clear. He must decline to act.

International Congresses

Accountancy is international in outlook and much of our work has taken many of our members to all parts of the world. We therefore had particular cause to welcome the opportunity we had in June last year, at the Sixth International Congress on Accounting, to maintain and increase our friendly relations with accountants from other countries. Arrangements are now in progress for the holding of the Seventh International Congress in the Netherlands in 1957, and our Secretary, Mr MacIver, has only recently returned from there, where he has been passing on to the organizers the benefit of the experience he gained in dealing with the many problems he encountered as secretary of the last congress.

National Outlook

Although as a profession we stand aside from party political controversy, there is no doubt that our knowledge and daily experience give many of us grounds for concern about the national economy. The excessive taxation which we have to bear in this country, combined with the building up of a welfare state at a time when the national economy is strained, is rapidly producing a situation which makes some of us fear for the future.

The high rates of taxation on income since the beginning of the war have made it virtually impossible for individuals to accumulate capital in the form of savings. Moreover those who have been able, in better days, to accumulate capital have now been obliged or encouraged to delve into it for current expenditure. In addition, they are aware that a substantial part of anything they leave behind when they die will also be taken away in taxation and this is a further discouragement to any attempt at current saving.

Indeed, proprietors of private businesses need to think carefully whether they are justified in ploughing back profits in order to maintain and expand, bearing in mind the future inroad of estate duty. The normal person could hardly be expected to sacrifice the enjoyment of current income in the knowledge that the result may well be to cause distress to his wife and family after his death.

These evil effects of high taxation have, as I say, come into existence at a time when a welfare state is being built up. The rising generation has been brought up on welfare principles which certainly do

not foster the desire to stand on one's own feet or the ability to face adversity when it comes along. We cannot, of course, ignore the need for a certain amount of welfare arrangements, but personally I think we are tending to go much too far. We ought to be careful that social security for the individual does not lead in time to social insecurity for the whole country.

Hard Work and High Production

We can only have real social security on the basis of hard work and a high level of useful production. We are not going to encourage either hard work or production by high taxation, which removes incentive, or by excessive welfare legislation, which leads people to suppose that whatever they do, the State will take care of them and relieve the parent from his family responsibilities, thus aggravating the present tendency towards the disintegration of the family as a corporate unit and towards the loss of independence and dignity of the individual. Such a state of affairs is against all Christian principles and the end of what, to my mind, has been a cardinal feature of this island's greatness.

A short time ago I was reading that for every six persons productively engaged there is one pensioner, and that in twenty-five years' time there would be one pensioner for every three productive persons.¹ If these figures are right they present a horrifying picture of the further burdens which the whole working population will have to endure.

Our daily work as chartered accountants brings us into contact with the hard facts of our economy and we cannot help but have misgivings about the road we are travelling. It is not, however, for us as a profession to solve problems of national economy. We can only do our best to carry out our duties by presenting to managements and shareholders a true and fair view of the facts and by helping managements to derive the greatest benefit from accounting records.

Conclusion

In conclusion, I hope that this twenty-first autumnal meeting will be no less successful than its predecessors. Indeed, I hope that as a coming-of-age meeting it will prove something of a special occasion. I wish to meet as many of you as possible and I hope you will make yourselves known to me at any available opportunity during the course of the meeting. I am here to serve you.

Welcome to Foreign Visitors

The President of the Institute extended a warm welcome to several visitors at the autumnal meeting from the Continent: they were Herr H. L. Van den Bosch and Mevrouw Van den Bosch - Van Douwe (Holland); Professor Van Rietschoten and Mevrouw Van Rietschoten - Goppel (Holland); and Dr A. Meier and Frau Meier (Germany).

¹Fourth annual report of the Ministry of National Insurance, Cmd. 8882. H.M.S.O., 3s 6d net. See *The Accountant* dated July 25th, 1953.

Mannequin Parade

For the entertainment of the ladies on Thursday morning, a mannequin parade was held in the restaurant of Messrs Marshall & Snelgrove, during which coffee was served and some outstanding ex-

amples of this season's fashions were shown to the enjoyment of those present.

For the benefit of ladies who were unable to attend in the morning, the show was repeated during the afternoon.

Receptions and Luncheons

At The Grand Hotel

The opening luncheon at *The Grand Hotel* was preceded by the reception of members and ladies by Mr Blakey and Mr C. M. Strachan, F.C.A., vice-chairman of the district society's conference committee.

Mr Strachan presided at the luncheon and proposing the toast of 'The Borough of Scarborough', commended to those present this 'historic and gracious borough' where organized existence goes back to prehistoric times, with Iron Age settlements 1,000 years B.C. He continued:

'In the year of Hastings, Harold Hardrada burned the town by casting blazing bales from Castle Hill. He looted all the wealth so that when Domesday Book was compiled 20 years later there is no record of the place; but the virtue of the situation and the virtue of the people was such that 100 years later the borough was in being, and a charter was granted, now nearly 800 years ago.'

Mr Strachan went on to say that in this period of 800 years Scarborough had taken its full share in history and that in 1354 auditors were assigned to deal with accounts of harbour dues, for through all these centuries it has been a fishing port.

He concluded with words of appreciation for the welcome and the help accorded to the autumnal meeting by the officials of the Borough of Scarborough.

In his reply, Councillor N. Walsh, M.B., CH.B., J.P., Mayor of Scarborough, said that during his period of office he had had the very pleasant duty to perform of welcoming many and diverse conferences to the town. From each conference he had tried to learn something, and had had the opportunity of discussing matters and subjects which in the ordinary way would not have entered into his ken.

He continued:

'It is quite true that in our early days we had auditors - we have suffered from them ever since. (Laughter).

'There is something in common between auditors and the medical profession. We have both the highest regard for the responsibilities of our professions, and it is very important that these responsibilities should be maintained. But also we have something in common apart from that - you spend most of your time dealing with figures and we do our little bit in the same way.' (Laughter).

Councillor Walsh concluded:

'I used to think that members of the accountancy profession were people who always went about with long and serious faces, muttering to themselves - about figures of course - and I am pleasantly surprised to see so many cheerful faces present.'

At The Royal Hotel

At the opening luncheon at *The Royal Hotel*, members and ladies were received by Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A., President of The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, and Mrs Hart, together with Mr D. V. House, F.C.A., Vice-President of the Institute, and Mrs House.

Proposing the toast of 'The Borough of Scarborough', Mr Hart extended a warm welcome to members and ladies and went on to thank Councillor and Mrs Edwin Priestley, the Deputy Mayor and Mayoress of Scarborough, who were guests at the luncheon, for the great help that had been received from the Scarborough Corporation in organizing the

conference. Nobody could have been more helpful, he said, and it had made the task much easier.

There was applause when Mr Hart said he hoped that the ladies had found flowers in their rooms when they arrived. He added, 'the small bowls are part of the gift, so please don't think you are running away with hotel property if you take them when you leave!'

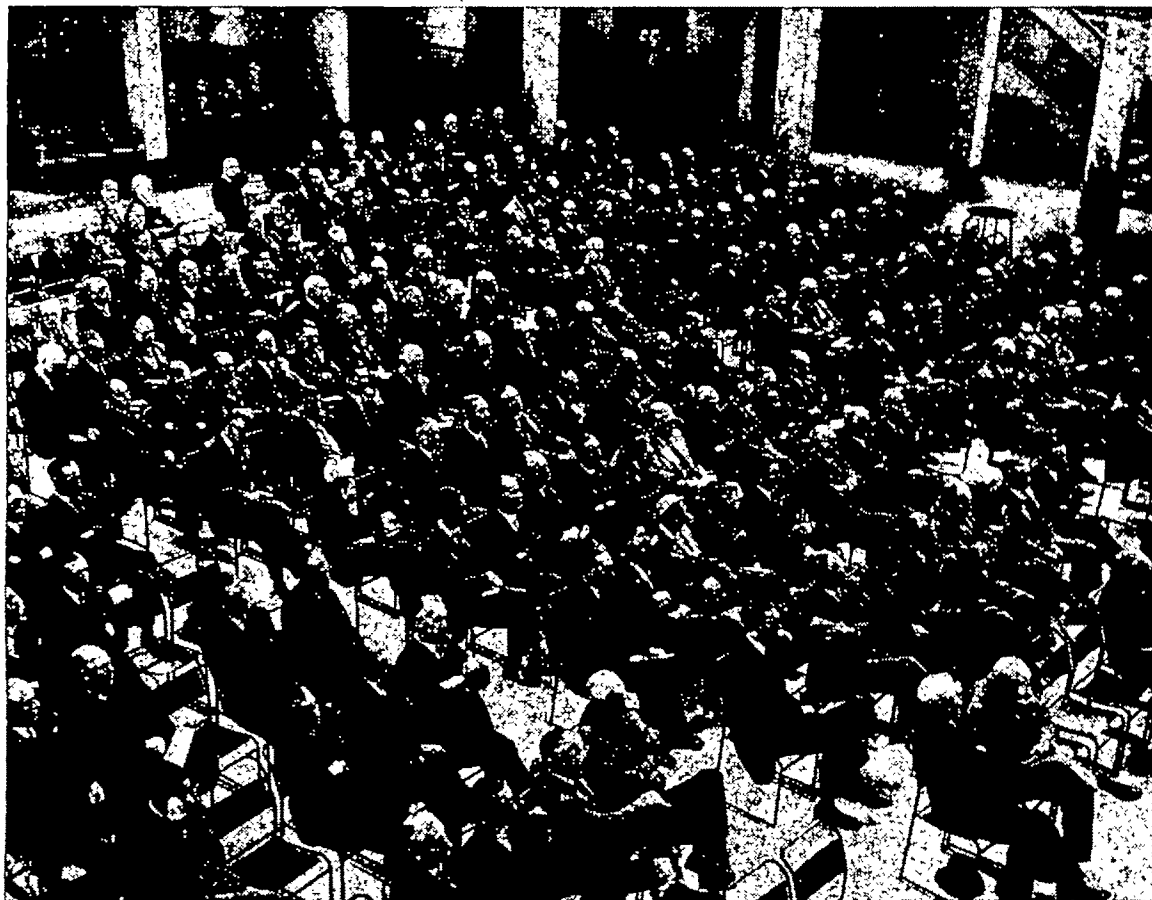
Councillor Priestley, replying, said he had been going through accounts of the corporation of 100 years ago, and it was staggering to see the difference in costs between then and now. He said: 'I think last year our financial reckonings were in the region of over half a million pounds, whereas one hundred years ago they were in the region of £4,000'.

First Conference Session

The Accountant as Financial Adviser

The paper at the first conference session on Thursday afternoon was given by Mr K. A. E. Moore, F.C.A., who spoke on 'The accountant as financial adviser'. The first part of Mr Moore's paper appears on other pages of this issue.

Mr Blakey presided at the session and introduced the speaker whose address was followed by a discussion which was wound up by Mr Moore. A vote of thanks to the speaker and to the President of the Institute for taking the chair was proposed by Mr



A section of the assembly at the Olympia Ballroom, during the opening session on Thursday morning



A group of members and ladies from Manchester at the reception before the opening luncheon at *The Grand Hotel* on Thursday. (Left to right) Mr H. C. Gill, M.C., F.C.A.; Mr C. B. H. Gill, B.A., A.C.A.; Mr H. Sutherst, F.C.A.; Mrs Sutherst; Mrs A. Rigby; Mrs D. N. Walton; Mrs J. Allured, and Mr D. N. Walton, F.C.A.

G. R. Smith, F.C.A., chairman of the Grimsby Group of The Hull, East Yorkshire and Lincolnshire Society of

Chartered Accountants; and seconded by Mr E. T. Coulson, F.C.A., chairman of the Scarborough Group.

Civic Reception and Ball

A civic reception and ball at the Olympia ballroom by kind invitation of the Mayor of Scarborough, was the final event of the autumnal meeting's enjoyable opening day.

Mr and Mrs Blakey, Mr and Mrs Hart, Mr and Mrs House and Mr and Mrs C. M. Strachan joined the Mayor and Mayoress in the manager's office and then went out to the ballroom, where the Mayor shook hands with the party as a token reception. Dancing then continued until midnight, the floor being well filled all the evening, although many members and ladies were interested to watch the

dancers from the balcony which surrounded three sides of the floor. Midway through a gay evening, there was a cabaret turn in which Miss Joyce Golding gave an amusing selection of impersonations.

Before the ball, Mr Hart (President of the Society) and Mr C. M. Strachan (Vice-Chairman of the Society's conference committee) together with Mrs Hart and Mrs Strachan, invited members of the Society's conference committee to a cocktail party at *The Royal Hotel* to meet the President of the Institute and members of the Council. Lord and Lady Downe were also present.

A Wide Selection of Tours on Friday

Scarborough was shrouded in what is locally termed a 'sea fret' early on Friday morning, but by the time members and ladies were setting off on the various tours the mist had cleared and for the rest of the day the weather was bright and sunny.

There were seven whole-day excursions and three afternoon ones. The programmes were as follows: (1) Official visit to Kingston upon Hull; (2) the Vale of Pickering, Rievaulx Abbey, Wass Bank and Malton; (3) Goathland Moors and Whitby; (4) Rosedale and Whitby; (5) York; (6) tour of the factory of Rowntree & Co Ltd at York; (7) Whitby moors, Bilsdale and the Vale of Pickering; (8) Flamborough Head and Bridlington (afternoon tour); (9) Whitby (afternoon tour), and (10) Troutsdale and Hackness (afternoon tour). All were reported as most enjoyable and not without event, for the party on the Goathland moors tour discovered that Goathland sheep have a hearty appetite for sweets—a taste that may extend to headgear on the Whitby moors, where Mr W. S. Carrington's hat unaccountably disappeared. Nearly sixty members and ladies took part in the official visit to Kingston upon Hull. On arrival at the Guildhall, Mr J. Blakey, F.C.A.,

the President of the Institute, and Mrs Blakey, were welcomed by Mr B. Svenson, the Sheriff of Kingston upon Hull and Mrs Svenson. After cocktails had been taken, at the invitation of the Lord Mayor, luncheon was served in the reception room, where the chair was taken by Mr Hart. The chairman was supported by Mr Bernard Robins, F.C.A. (immediate Past President of the local Society).

After the loyal toast had been honoured, Mr Blakey expressed the thanks of the members to the civic heads for their hospitality and for the opportunity afforded to the members and their ladies of seeing something of the ancient city and port of Kingston upon Hull.

In his reply, the Sheriff expressed his pleasure at being able to be present and referred to the high place occupied by The Institute of Chartered Accountants in the estimation of the public.

In addition to the Sheriff and Mrs Svenson, there were present Alderman H. Fairbotham, J.P., chairman of the Property Committee; Mr E. H. Bullock, Town Clerk, and Mrs Bullock; Mr C. H. Pollard, O.B.E., F.S.A.A., F.I.M.T.A., City Treasurer, and Mrs Pollard.

Golf Competition at Ganton

The golf competition on Friday was played over the course of the Ganton Golf Club which, when stretched out to its championship length, measures nearly 7,000 yards. This competition however, was played from the medium tees. There were 44 competitors for the morning round which consisted of a Stableford bogey in conjunction with a medal round for those interested in a prize for the best gross medal score. The weather was foggy at first but cleared, and everyone enjoyed the day on this most beautiful and well-kept course. Luncheon and tea were taken in the clubhouse.

There was keen competition for the various prizes, an innovation this year being the provision of a

special prize for the lowest number of points scored by a competitor for six sealed holes. The results were as follows: *Best gross medal round*: Mr D. C. Stuart Downs, 83; *Stableford Bogey*: 1st, Mr H. D. Anderson, 36 points; 2nd, Mr H. C. Mounsey, 35 points; *Special prize* (6 sealed holes): Tie between Messrs H. J. Cole, G. W. Clough, F. H. Turner and R. McNeil; *Bogey foursome* (14 holes): Mr T. Burdon and Mr R. F. Tetley.

The contributors to the prize fund, to whom everyone was most grateful, were: Mr James Blakey; Mr N. B. Hart; Mr H. F. Strachan; Mr C. M. Strachan; Mr D. C. Stuart Downs, and the Chartered



At the reception before the opening luncheon at *The Grand Hotel* on Thursday. (Left to right): Mrs Walsh, Mayoress of Scarborough; Mr James Blakey, F.C.A., President of the Institute; Mrs Blakey; Mr C. M. Strachan, F.C.A. (who presided at the luncheon) and Councillor N. Walsh, M.B., CH.B., J.P. Mayor of Scarborough



Before the civic reception. Mr Douglas A. Clarke, LL.B., F.C.A., Mrs Clarke, and Mr J. G. Hanwell, T.D., F.C.A., together with the visitors to the autumnal meeting from Holland. (Left to right) Mevrouw van Rietschoten; De Herr van den Bosch; Mr Hanwell; Mevrouw van den Bosch; Mr and Mrs Clarke; Professor van Rietschoten

Accountants' Golfing Society. The prizes purchased out of this fund were as follows: Best gross, (shooting stick); Stableford 1st prize, (leather travelling grip); 2nd prize, (hide wet pack); Special prize, (1 dozen golf balls); Bogey foursomes winners, (a new gas-type Ronson lighter each).

At the conclusion of the day, Mrs Blakey, the wife of the President of the Institute presented the prizes. A vote of thanks was then passed to her by Mr Downs and also to Mr Sam Smith, the Captain of the Ganton Golf Club, for the use of the course and clubhouse facilities.

The Receptions and Banquets on Friday

Banquet at *The Grand Hotel*

The large number attending the autumnal meeting made it impossible to accommodate everyone at one hotel for the banquet on Friday evening, so this function, as with the opening and concluding luncheons, was divided between the *Grand* and *Royal Hotels*.

There were 271 members, ladies and guests at the banquet at *The Grand Hotel* and they were received by Mr James Blakey, F.C.A., President of the Institute, and Mrs Blakey, together with Mr C. M. Strachan, O.B.E., F.C.A., a member of the Council of the Institute and Vice-Chairman of the conference committee, and Mrs Strachan.

The principal guests were Brigadier The Right Honourable The Viscount Downe, O.B.E., T.D., and Viscountess Downe; Mr F. Spink, deputy Chairman, Rowntree & Co Ltd, and Mrs Spink; Mr H. Wilson, Borough Treasurer, Scarborough; Mr S. H. Fewster, Conference Officer, Scarborough Corporation, and Mrs Fewster.

Among those present were: Sir Harold Barton F.C.A., (*Past President of the Institute*), and Lady Barton; Sir Bernhard Binder, F.C.A., (*Past President of the Institute*), and Lady Binder; Mr C. W. Boyce, C.B.E., F.C.A., (*Past President of The Institute*), and Mrs Boyce; Mr T. B. Robson, M.B.E., M.A., F.C.A., (*Past President of the Institute*), and Mrs Robson; Mr Gilbert D. Shepherd, M.B.E., F.C.A., (*Past President of the Institute*), and Mrs Shepherd.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Viscount Downe expressed his pleasure at the invitation to propose the toast and said he wished to couple with it the name of Mr James Blakey.

Viscount Downe went on to say that no one with common sense could fail to be apprehensive of the present and future of our country, and he felt that in such times not only our national and Empire liabilities but also our assets should be counted. Having travelled a good deal and having lived in other countries, he considered that Britain had one priceless possession, namely, that of British integrity. This quality was held in high esteem by The Institute of Chartered Accountants, being in no small measure due to the traditions of the Institute which had been built up painstakingly stone by stone through previous generations. We all respond to the power and leadership of *esprit de corps* that can be built up only on the qualities which we both admire and

respect. These were the qualities on which the Institute was built and upon which it stands.

Responding to the toast, Mr Blakey thanked Viscount Downe for his kind reference to the Institute, and for the charming reference to himself.

Three Alibis

Mr Blakey stated that he was in possession of three alibis whereby he had been relieved of saying anything profound at this banquet – firstly, he had two most charming companions and therefore had not had an opportunity of preparing a reply, secondly, according to the time-table he was due to speak at 9 o'clock and therefore should not be there at all, and thirdly there was dancing to follow and his doctor had always stipulated that at about 10 o'clock in the evening a little light exercise was an excellent thing. (Laughter.)

He continued:

'I am delighted, and I know we all are, to see so many ladies present this evening. I have come to the conclusion that the success of we mere males, be it great or small, is entirely due to the care and the stimulus of some member of the fair sex. Any encouragement we get is certainly not to be despised, and it is only on occasions such as this that we can say thank you for what you have done for us.' (Applause.)

The toast of 'Our Guests' was proposed by the chairman, Mr Charles M. Strachan, who said in the course of his speech:

'An accountant is liable to think of any subject in terms of figures and I cannot resist quoting to you certain statistics. It was 1,000 years B.C. when Homer recorded traditional proposing of the toast of the guests so that the practice had commenced before his time. Call it 3,000 years ago. At about the same time there was a settlement here in Scarborough by progressive Europeans and it is fair to assume that they forgathered and feasted. Suppose, allowing for the dark ages, the toast has since been proposed on the average once a week in Scarborough, that gives 150,000 toasts to the guests, in Scarborough. And the population in Scarborough is only about one-thousandth of the population of Great Britain, so that we get 150 million proposals of this toast. One cannot therefore hope that one's own proposal shall be unique.

'Fortunately, however, in the new circumstances of each occasion, the toast does not become stale. As the hymn says: "Fresh every morning is the love our waking and uprising prove." And it is the same with the toast of the guests; it comes to us fresh and vigorous with all our goodwill and all our good wishes behind it.'

Human After All

In his response, Mr Frederick Spink, deputy chairman of Rowntree & Co Ltd, said that most of his relations in dealings with chartered accountants hitherto had been on a business basis, and what

really delighted him beyond measure was to find that chartered accountants were human. There was all the evidence in the world before his very eyes. (Laughter.) 'They have wives', said Mr Spink, 'they have families and presumably they live in houses.'

Banquet at The Royal Hotel

The company of 258 members, ladies and guests who attended the banquet at *The Royal Hotel*, were received by Mr N. B. Hart, President of the Society, and Mrs Hart, together with Mr D. V. House, Vice-President of the Institute, and Mrs House.

The principal guests were the Right Rev. Dr Harland, The Lord Bishop of Lincoln, and Mrs Harland; the Rt Hon. The Lord Derwent; Mr R. Grindal Gray, President of the Law Society of Scarborough, and Mrs Grindal Gray, and Mr C. J. Lyon, H.M. Inspector of Taxes.

Among those present were: Mr W. L. Barrows, F.C.A. (*Member of the Council*), and Mrs Barrows; Mr W. S. Carrington, F.C.A. (*Member of the Council*) and Mrs Carrington; Mr T. Fleming Birch, F.C.A., and Mrs Fleming Birch; Mr H. Garton Ash, O.B.E., M.C., F.C.A. (*Past President of the Institute*), and Mrs Garton Ash; Sir Russell Kettle, F.C.A. (*Past President of the Institute*), and Lady Kettle; Mr W. H. Lawson, C.B.E., B.A., F.C.A. (*Member of the Council*); Mr S. J. Pears, F.C.A. (*Member of the Council*), and Mrs Pears; Mr P. M. Rees, M.C., F.C.A. (*Member of the Council*), and Mrs Rees; Mr G. F. Saunders, F.C.A. (*Member of the Council*), and Mrs Saunders; Mr K. G. Shuttleworth, F.C.A. (*Member of the Council*), and Mrs Shuttleworth; Mr E. G. Turner, M.C., F.C.A. (*Member of the Council*), and Mrs Turner; Mr A. D. Walker, F.C.A. (*Member of the Council*), and Mrs Walker; Miss Ethel Watts, F.C.A.

'The Institute'

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Lord Derwent who referred in the course of an amusing speech to the difficulties of accountants in some countries – especially those where 50 per cent of clients carried revolvers in their pockets. Lord Derwent continued:

'Life is slightly easier for you practising in this country, and this is entirely due to your own high reputation. In this country we, your clients, know that within the law we won't pay any more tax than we have to when we get the final figure. On the other side, the Treasury, although you may argue with them about detail and about interpretation, are perfectly willing to accept a certificate from you saying things are as stated on the certificate. This high reputation of yours is the thing which makes life easier for you and for your clients.'

In his response, Mr D. V. House, F.C.A., Vice-President of the Institute, referred to the presence of the ladies, and said the Institute had done many

things in the past but none was as wise and gave it as much pleasure as inviting the ladies to these functions.

Growth in Duties and Responsibilities

He went on to say:

'The total membership of the Institute is over 17,000; the number of articles registered annually is 1,400, but numbers are not everything, and the growth in the duties and responsibilities, and in the knowledge required of the chartered accountant is also striking. It is hardly necessary to add that despite this rapid growth, the high standard set by the Institute remains, both as regards qualifications and discipline, whereas in such circumstances it might easily have been otherwise.'

'Our examinations are not easy to pass. It is essential they should not be, but they are not impossible for anyone who applies himself and works hard'.

The fact that some curious answers to examination questions appear from time to time was illustrated by Mr House to the great amusement of his audience.

The toast of 'Our Guests' was proposed by Mr Hart, who, referring to the presence of the Bishop of Lincoln, and Mrs Harland, said it had been the practice in post-war conferences to include a church service in the proceedings. He commented.

'I think we all feel that it is highly appropriate that our conference should include a corporate act of worship, asking for the blessing of God on our labours.'

Husbands of Lady Members

Mr Hart referred to the mannequin parades arranged for the wives of members, and continued:

'I wonder if one day we shall have to think of some entertainment for the husbands of lady chartered accountants who are attending our meetings – I do not think there are any here – but I am looking forward to the day when we have to arrange a billiards match for the husbands.' (Laughter.)

Mr R. Grindal Gray, President of the Scarborough Law Society, responded to the toast and entertained his listeners with a light-hearted glossary of accountancy terms with which he had equipped himself for the occasion. One, he said, which appealed particularly to the legal mind was the fact that a ship on the stocks was a 'floating asset', but once launched became a 'fixed asset.'

At the conclusion of the dinner there was dancing in the ballroom until 1 a.m.

Church Service

Over 350 members and ladies attended divine service at St Mary's Church, Scarborough, on Saturday morning. The service was conducted by The Rev. J. T. M. Parlow, M.A., and the lesson, Romans xiii, verses 1-7, was read by Mr N. B. Hart.

The Conference Sermon

The conference sermon was delivered by The Lord Bishop of Lincoln, The Rt. Rev. Maurice Harland, D.D., who took as his text, St Luke xvi, 2: 'Give an account of thy stewardship'; he said:

People keenly interested in their work delight to meet others concerned with the same affairs to exchange knowledge and experiences and learn from one another. A common interest and devotion to a common cause create friendship and create true and happy fellowship.

Your great association has come into being and flourishes because of your devotion to your calling and your sense of fellowship in its pursuit.

A conference such as this is a giving account of your stewardship. You who will be speakers will give a public account of your hopes and ideals and how far they are being realized. The greatest number of you will be listeners in public rather than speakers, but in your thoughts, and in conversation with each other you will be giving account to yourselves of your stewardship. You will be thinking of how far you have attained your hopes and ideals and whether your experience encourages your aspirations. Men of your profession do not, I imagine, easily attain to the position you now hold. I believe it is true that the initial examinations are distinctly stiff and difficult, and the many avenues, and the demands of changing conditions call for a high order of ability in your profession.

The wise man is he who knows how little he knows and is always prepared to learn. The educated man is not he who knows, or thinks he knows, everything, but where to turn to gain accurate and reliable information. Life means discipleship, which is we must never stop learning and developing our gifts and powers. I have taken my text from what is perhaps the most difficult of the parables of Christ. He clothed his profoundest teaching in stories, or parables, which stick in the memory, intrigue intelligence, till at last they convey their meaning and truths. It is commonly called the parable of the unjust steward, but it is the story of the failure of success.

The Desire to Succeed

I have become convinced that there are few more dangerous things in the world than to be successful. We all, naturally, desire to succeed in our undertakings and realize our hopes, but I submit it is true to say that more men, and women, are ruined by success than by anything else.

In this parable we have a man who had attained to a great position of trust. He was steward of his

lord's affairs. Clearly a man of ability, or he would not have gained that appointment. But when accused of having wasted the property he knew the charge was true and had no defence to offer. Dismissal was certain. His desperate position called forth all his powers and real ability. 'What shall I do? - I cannot dig, to beg I am ashamed. I am resolved what to do, that when I am put out of the stewardship, they may receive me into their houses.' So he called every one of his lord's debtors unto him, and said unto the first, 'How much owest thou unto my lord?' 'An hundred measure of oil.' 'Take thy bill, and sit down quickly, and write fifty'. To another, 'and how much owest thou?' 'An hundred measures of wheat.' 'Take thy bill and write fourscore.' And his lord commended the unjust steward, because he had done wisely.

Apparently the steward was within his right to reduce his own commission or profit. His lord would hardly have commended him if this action was dishonest. But it was the wisdom of the man in a desperate position that was commended, not his morality. He had to be in a desperate position, in a 'real jam' to reveal his ability. He used the short time remaining to purchase respect and goodwill. He was seeking that which a man most needs, and that is friendship and regard. He needed those who would stand by him in trouble and help him to start again. A man needs respect and goodwill far more than success.

The Need to be Worthy of Trust

But how was it that a man of such gifts and real ability had come to fail so badly? I believe it was because he had gained his desire and fulfilled his ambition to be a steward of a rich man's household. He had worked his way up to it and having gained his desire there was no more spur to his powers. He enjoyed the position he coveted and was satisfied. His sense of honour and being in a position of high trust was dull so he 'let things go'. He was in the position of those the Bible records to whom 'He gave them their desire: and sent leanness withal into their souls'. We all know of people today who seek a job which must give them a certain position and high rate of pay, quite irrespective of whether they have the necessary qualifications. Such things are disturbing in their revelation of the hiring spirit that is concerned more with the hire than with the steady determination to be worthy of the trust and able to fulfil it.

Our Lord's commentary on the parable is 'Make to yourselves friends of the mammon of unrighteousness: that when ye fail, they may receive you into everlasting habitations'.

Mammon means money. It is called unrighteous because of the use to which it is so often devoted that it is stigmatized as 'the root of all evil'. Not that there is anything wrong in riches or money in itself. It is neither righteous nor unrighteous. Like every-

thing else it can be used for good or evil. It is not the possessions but the man who possesses them who is responsible for good or evil.

One of the profoundest truths Christ expressed is 'Man's life consisteth not in the abundance of the things he possesseth', or perhaps more plainly, it is not what a man has but what he is that really matters. A man may have great material possession of wealth and position but if he is bad they will be a curse to all with whom he has to do. The greater a man's powers the greater is his influence for good or evil. How things are used depends entirely upon the soul and character of those who have them.

We are disturbed by the discovery and exercise of what is called 'atomic energy' and the experiments with atomic bombs and the like. Yet there is nothing wrong with the power. It may be the greatest boon to humanity, but will it? that depends on the men who have it.

The steward in the parable had great gifts which gained him a cherished position. But he never won respect or regard till forced to do so by extremity. He wasted the goods and so betrayed his trust. It was not his position but the way he filled it that brought ruin. Then he was only able to make temporary accommodation for himself. But Christ said - 'Use your gifts and powers to make true

friendships, friendship based upon trust, integrity, and a high sense of honour and duty, then if you fail you will find your real friends who will stand by you for ever because you have made yourself to be the man worthy of honour and love.'

'Give an account of your stewardship.' Take stock of yourselves that you may see the kind of man you are and are becoming. You have had your triumphs and successes, are you a better man in consequence in yourself? You have your failures, your disappointments and your anxieties. What have they made you? This world has been well described as 'the Vale of Soul-making'. A man's soul is his true self. The things that come to us in life whether in the way of successes or disappointments are sent to try and to prove us, what manner of men we are. They are sent too to teach us humility in the knowledge that 'we have no power of ourselves to help ourselves'. There are things that lie beyond our powers to control and for which we need spiritual resources which God alone can supply. According to what we are in our souls, so will our stewardship be.

During the singing of the hymn 'Praise, my soul, the King of Heaven', a collection was taken on behalf of the Chartered Accountants' Benevolent Association this amounted to £110.

Second Conference Session

The Excess Profits Levy

At the second conference session, held at the Olympia ballroom on Saturday morning, Mr Blakey introduced Mr E. N. Macdonald, D.F.C., F.C.A., who submitted a paper on 'The excess profits levy'.

In the discussion which followed the paper, a number of problems were raised on which the speaker later gave his opinion. A vote of thanks to Mr Macdonald, was proposed by Mr J. Camamile, F.C.A., chairman of the Society's Lincoln Group, and seconded by Mr G. B. Robins, F.C.A., immediate Past President of the Society. We hope to reproduce Mr Macdonald's address in an early issue.

Presentation to Mr H. F. Strachan, F.C.A.

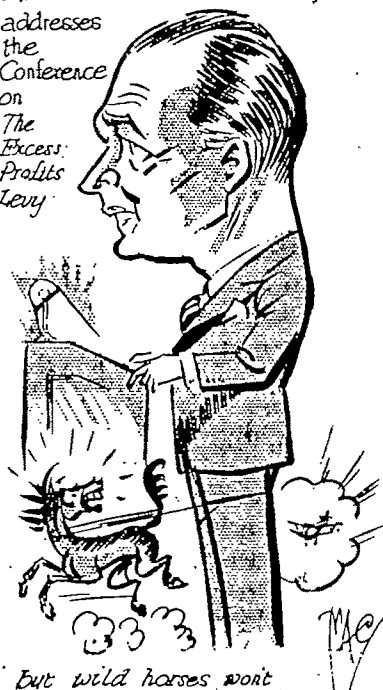
At the conclusion of the business session, Mr Blakey spoke of the debt of gratitude which the conference owed to Mr H. F. Strachan, F.C.A., the Honorary Conference Secretary, to whom a large measure of the credit for the meeting's success was due. Mr Blakey presented to Mr Strachan a model television set to symbolize the large set which was waiting for him at Hull. Mr Strachan, who was greeted with applause, made an admirable reply.

Overseas Visitors

The conference ended with short speeches by Professor A. M. van Rietschoten and De Herr van den Bosch, of Holland, and Dr A. Meier, of Germany.

E. N. Macdonald D.F.C., F.C.A.

addresses
the
Conference
on
The
Excess
Profits
Levy



The Concluding Luncheons

At The Grand Hotel

Nearly 260 members and ladies were present at the concluding luncheon held at *The Grand Hotel* on Saturday, October 10th, when the chair was taken by Mr N. B. Hart, O.B.E., T.D., M.A., LL.B., F.C.A., President of the Society.

The toast of 'The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants' was proposed by Mr D. V. House, F.C.A., Vice-President of the Institute.

In his reply, Mr Hart thanked, on behalf of all the members and their guests who had attended the conference, all those who had combined their efforts to make the three days such a success. 'An operation of this magnitude' said Mr Hart, 'depends entirely on the team-work of the various committees and their helpers, and if there has been any success it is entirely due to the help and hard work of all concerned.'

In conclusion, Mr Hart thanked all the members and ladies for their kind support to the conference.

At The Royal Hotel

The concluding luncheon at *The Royal Hotel* was attended by over 250 members and ladies, with Mr C. M. Strachan, O.B.E., F.C.A., Vice-Chairman of the Society's Conference Committee, in the chair.

Mr James Blakey, F.C.A., President of the Institute, proposed the toast of 'The Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants' and expressed in the course of his speech, his appreciation of the hospitality and entertainments which had been offered by their hosts.

In his response, Mr Strachan spoke of the great pleasure with which the Society had acted as host and said that he wished, in particular, to record the thanks of the Society to Mr Hart, the President of the Society and Chairman of the Conference Committee.

Members of Committees

Membership of the committees responsible for the organization of the autumnal meeting was as follows:

The Institute's Conference Committee

The President of the Institute: Mr James Blakey, F.C.A.; *the Vice-President of the Institute:* Mr D. V. House, F.C.A.; *Messrs H. Garton Ash, O.B.E., M.C., F.C.A.; S. W. Cornwell, F.C.A.; T. B. Robson, M.B.E., M.A., F.C.A.; Secretary:* Mr A. S. MacIver, M.C., B.A.; *Assistant Secretaries:* Messrs C. H. S. Loveday, A.C.A., and F. M. Wilkinson, A.C.A.

The Society's Conference Committee

Chairman: Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (the President of the Society); *Vice-Chairman:* Mr C. M. Strachan, O.B.E., F.C.A.; *Hon. Conference Treasurer:* Mr K. P. Helm, F.C.A.; *Hon. Conference Secretary:* Mr H. F. Strachan, F.C.A.; *Messrs S. K. Ashworth, A.C.A., J. A. Bryden, A.C.A., W. J. Campbell, A.C.A., E. T. Coulson, F.C.A., A. S. Freeth Oliver, F.C.A., W. B. Hall, F.C.A., J. Hankinson, A.C.A., C. G. Heselton, A.C.A., T. W. Mackrill, F.C.A., W. S. Marshall, A.C.A., A. G. Pearson, F.C.A., H. G. Sergeant, A.C.A., F. H. Smith, A.C.A., A. N. Townsley, A.C.A., M. J. F. Willcox, A.C.A., A. A. Beardsall, F.C.A., J. Camamile, F.C.A., R. C. Copeman, A.C.A., D. C. S. Downs, F.C.A., J. R. Gregory, A.C.A., W. H. Hall, A.C.A., J. G. Hanwell, F.C.A., E. K. Locking, F.C.A., E. C. Mallett, F.C.A., F. S. Mowforth, F.C.A., G. B. Robins, F.C.A., R. G. Slack, M.A., F.C.A., N. Townend, F.C.A., and W. S. Warrs, A.C.A.*

The Society's Conference Sub-committees

HOTELS AND RECEPTION

Chairman: Mr W. S. Marshall, A.C.A.; *Messrs S. K. Ashworth, A.C.A., W. B. Hall, F.C.A., T. W. Mackrill, F.C.A., A. G. Pearson, F.C.A. and R. G. Slack, M.A., F.C.A.*

BANQUET AND CATERING

Chairman: Mr E. C. Mallett, F.C.A.; *Messrs F. C. B. Ashby, F.C.A.; J. Camamile, F.C.A., J. G. Hanwell, F.C.A., T. Hudson, A.C.A., R. H. R. Marshall, F.C.A., A. S. Freeth Oliver, F.C.A., and W. J. Campbell, A.C.A.*

EXCURSIONS AND TRANSPORT

Chairman: Mr J. A. Bryden, A.C.A.; *Messrs C. G. Heselton, A.C.A., G. B. Robins, F.C.A., A. N. Townsley, A.C.A., and C. R. H. Wreathall, A.C.A.*

GOLF

Chairman: Mr D. C. S. Downs, F.C.A.; *Messrs J. Fawcett, F.C.A., B. Hoole, A.C.A., and F. H. Turner, A.C.A.*

PRINTING, PUBLICATIONS AND PRESS

Chairman: Mr H. G. Sergeant, A.C.A.; *Messrs A. A. Beardsall, F.C.A., W. H. Hall, A.C.A., S. R. Jones, A.C.A., E. J. Robson, A.C.A., and N. Townend, A.C.A.*

GENERAL PURPOSES

Chairman: Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A.; *Messrs C. M. Strachan, O.B.E., F.C.A., K. P. Helm, F.C.A., J. A. Bryden, A.C.A., D. C. S. Downs, F.C.A., E. C. Mallett, F.C.A., W. S. Marshall, A.C.A., A. S. Freeth Oliver, F.C.A., G. B. Robins, F.C.A., and H. G. Sergeant, A.C.A.*

Honorary Public Relations Officer

Mr Derek du Pré, Editor of *The Accountant*.

MAC'S CARICATURES

A further selection of caricatures of personalities attending the autumnal meeting, specially drawn for *The Accountant* by the well-known caricaturist, Captain G. Machin, D.F.C., will appear in our next issue.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council, held on Tuesday, October 6th, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-president; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. Hamilton Baynes, Sir Bernhard Binder, Messrs C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, D. A. Clarke, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., K. A. E. Moore, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, T. B. Robson, M.B.E., G. F. Saunders, Gilbert D. Shepherd, M.B.E., B. Smallpeice, E. D. Taylor, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs M. Wheatley Jones, E. F. G. Whinney, with the Secretary and Assistant Secretaries.

Welcome to New Member of the Council

The President welcomed Mr Wheatley Jones, F.C.A., of Manchester, who was attending for the first time as a member of the Council and Mr Wheatley Jones briefly replied.

Presentation of Prizes

In presenting the following prizes to the under-mentioned candidates, who were able to attend the meeting of the Council, the President said:

Gentlemen,
On behalf of the Council, I extend to you our congratulations on the success you have achieved in the recent examinations of the Institute held in May 1953.

It is customary on these occasions for the President to say a few words which he trusts will benefit you and help you on your way.

In looking at addresses by my predecessors, I have been struck by the excellent words of advice that have been given, but have sometimes felt a doubt as to whether your receptivity is of the highest on a day like today when, no doubt, you have planned it as one of rejoicing and relaxation. Therefore, at the risk of being admonished by the members of the Examination Committee, who are present, I propose going back in my own mind to my student days, when I found that any aid in the preparation for the examinations was not to be despised and I always remember that I found some assistance from the use of mnemonics, but perhaps the present generation consider them unethical. At any rate, for what it is worth, I am going to give you two, one of which, I think, is applicable to the Final students.

Taking the word 'FINAL':

prevent vain and unbecoming thoughts obtruding and help to preserve your modesty.

'I' stands for 'Integrity', which it should be your ambition to maintain and which is a cardinal factor in character building.

'N' stands for 'Neighbourliness'. A willingness to help others without thought of self – in fact – do unto others as you would be done by.

'A' stands for 'Altruism' – in other words, you should give a certain amount of voluntary service to the benefit of your fellow man and, particularly, may I suggest an interest in your local students' society to enable you to help those who come after in preparation for the profession. From there you will no doubt gravitate to an interest in your local district society and eventually stand a good chance of becoming a member of this Council as its representative, from which it follows that you may at some future time be occupying the place I do today. It is well within the realms of possibility that one, or more, of you may be addressing future successful candidates – and then your troubles will really begin.

'L' stands for 'Loyalty' – the loyalty you will always owe to the Institute – and not only if you remain in the profession but also if you go into commerce.

As regards those students who have passed the intermediate examination, I do not propose to use the word 'Intermediate', because that would be burdensome and also unduly strain my ability, but it can safely be said that you are half-way – and therefore let us take the word 'HALF':

'H' stands for the hard work which you still have in front of you, not only for your Final, but always . . . and do not look upon hard work as a penalty like so many do. There is great satisfaction in it and it brings its own reward.

'A' stands for 'Application' – that is applying the knowledge you gain in your studies to enable you to answer the questions set in the examination.

'L' stands for 'Lucidity' and the necessity for expressing your ideas, not only in the examination room but elsewhere, with clarity and conciseness – and I might also add it stands for 'legibility', for we must always remember that the examiners, in spite of what you may have been led to believe, are only human. It is a distressing thought, but no one seems to be taught good writing as such. I only knew two good writers – one of them is dead, and I don't feel particularly bright this morning!

'F' stands for 'Fun' and includes healthful recreation and exercise so necessary when you are in the throes of preparation for the examination. It also broadens one's outlook and teaches you to realize there are many other fields of endeavour besides the profession.

To all of you – one last general recommendation I seriously suggest to you. Do cultivate a sense of humour, and let it be a kindly one and be ever ready to laugh at your own foibles.

The Finalists have only five words to remember, and the Intermediates four words – and providing one

Final

First Certificate of Merit, the Institute Prize, the Walter Knox Scholarship and the Plender Prize for the English Law (Part II) paper

D. L. Range (F. H. C. Christmas), London.

Second Certificate of Merit, the W. B. Peat Medal and Prize and the Plender Prize for the English Law (Part I) paper

P. Sergeant (E. A. Radford), Woking.

Second Certificate of Merit

A. V. J. More (C. H. Mead), London.

Fourth Certificate of Merit, the Plender Prizes for the Auditing and General Financial Knowledge and Cost Accounting papers

J. C. Steare (A. Smith), Manchester.

Frederick Whinney Prize and the Plender Prize for the Advanced Accounting (Part II) paper

M. H. Jenner (G. Place), East Grinstead.

Auditing Prize

J. Clowes (J. A. Carter), Bolton.

Intermediate

First Certificate of Merit, the Institute Prize, the Stephens Prize and, with one other, the Frederick Whinney Prize

P. Mendelssohn (J. F. T. Nangle), London.

Second Certificate of Merit and, with one other, the Frederick Whinney Prize

C. P. David (C. R. Daniel), Cardiff.

Third Certificate of Merit

I. R. McNeil (A. J. Heald), Brighton.

Seventh Certificate of Merit

R. Kapoor (A. H. Farquhar), London.

Ninth Certificate of Merit

J. V. M. G. Clark (E. York), London.

Eleventh Certificate of Merit

M. J. Beer (N. A. Wheatcroft), Sheffield.

P. M. D. Gibbs (F. O. M. Smith), London.

C. P. Huckstep (R. H. Dutchman), London.

Fifteenth Certificate of Merit and the Plender Prize for the Book-keeping and Accounts (Executorship) paper

J. M. L. Jaeger (E. D. Taylor), Leeds.

Eighteenth Certificate of Merit and the West Prize

E. A. Eden (G. W. Tonks), Wolverhampton.

Nineteenth Certificate of Merit

G. J. Martin (A. L. Barnett), Bristol.

Twentieth Certificate of Merit

K. G. Bishop (F. C. Russell), London.

Plender Prize for the Auditing Paper

N. N. Sassienie (F. W. Barnes), London.

Re-admission to Membership

One application for re-admission to membership was acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 for exemption from the Preliminary examination was acceded to.

Reduction in Period of Service under Articles

Four applications under bye-law 61 for a reduction in the period of service under articles were acceded to.

Exemption from the Intermediate Examination

Three applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to.

Final Examination

One application under bye-law 86 for permission to sit an earlier Final examination was acceded to.

Intermediate Examination

One application under bye-law 81 for permission to sit an earlier Intermediate examination was not acceded to.

Articled Clerks in Industrial Organizations

Three applications under bye-law 58 (c) from articled clerks to spend periods not exceeding six months in an industrial organization during their articles were acceded to.

Articled Clerks Engaging in Other Businesses

The Council acceded to four applications under bye-law 57 from articled clerks to engage during their service under articles in other businesses for the sole purpose and to the limited extent specified in the applications.

Bye-law 63:**Concessions Relating to National Service**

The Council authorized the publication of the following statement:

'After December 31st, 1953, the Council will not consider any further application under bye-law 63 (a) for exemption from the Preliminary examination or under bye-law 63 (c) for reduction in period of service under articles.'

Trustee Savings Bank Inspection Committee

Mr George R. Freeman, F.C.A., was nominated to serve as a member of the Trustee Savings Bank Inspection Committee for the four years ending November 20th, 1957.

Appointments to Committees

Mr M. Wheatley Jones, F.C.A., was appointed to serve on the Applications, Finance and District Societies Committees for the ensuing year.

Select Committee on Nationalized Industries

The Council authorized the publication of the following statement:

'In February 1952 a memorandum, entitled Professional Accountants and Undertakings whose Accounts are Required by Statute to be Laid Before Parliament was submitted to H.M. Treasury. This memorandum has been considered by the Select Committee on Nationalized Industries and is reproduced at pages 21-37 of the report of that Committee, which was published by H.M. Stationery Office in August 1953. Oral evidence in support of the memorandum was given before the Select Committee by Sir Harold Howitt and Mr T. B. Robson.'

[The memorandum will be reproduced in our next issue. - Ed.]

Ownership of Records

The Council approved a revised statement regarding the ownership of records, to replace that which appears at pages 140 to 142 of the *Members' Handbook*. The revised statement (reproduced at the end of this report) will be included in the next pamphlet of supplements to the *Members' Handbook*.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following twenty-nine associates who have commenced to practise:

Allen, John Frederick; 1940, A.C.A.; (Mellor, Snape & Co.), 130 Nantwich Road, Crewe, and at Northwich, Macclesfield and Manchester.

Battersby, John William; 1952, A.C.A.; 128 Parkside Drive, Watford.

Bennett, Gordon Beresford; 1952, A.C.A.; (*Donald H. Bates & Co.), Central Chambers, 10 Cheapside, Hanley, Stoke-on-Trent, and at Leek, Longton and Tunstall.

Bowman-Vaughan, Michael John; 1952, A.C.A.; (*Singleton, Fabian & Co.), 30 Southampton Buildings, Chancery Lane, London, WC2, and 65 London Wall, London, EC2.

Brooke, Donald; 1953, A.C.A.; 99 High Street, Gosport, Hampshire.

Common, Samuel Ainslie; 1937, A.C.A.; (Walter Meacock & Co.), Carlton Chambers, 45 High Street, Newport, Mon.

Daniels, Walter Albert; 1951, A.C.A.; (Campbell & Bowden), Westminster Bank House, 3 York Street, Manchester, 2.

Davies, David Clifford; 1926, A.C.A.; (Gowar, Ashby & Barnsdale), Staple House, 51-52 Chancery Lane, London, WC2.

Durnin, John Charles; 1951, A.C.A.; (Clark, Battams & Co.), 32 Victoria Street, Westminster, London, SW1.

Fairhurst, Wilfred; 1931, A.C.A.; 17 Shenstone Avenue, Quinton, Birmingham, 32.

Frith, John Sourbuts; 1953, A.C.A.; (J. Frith & Co.), 89, Fountain Street, Manchester, 2.

Gill, Alfred Hutchinson; 1940, A.C.A.; (*Frank Shaw, Gill & Co.), 17 Queen Street, Oldham.

Glendinning, Robert Stanley; 1948, A.C.A.; (Richards, Russam & Co), Martins Bank Chambers, 2A Tyrrel Street, Bradford, 1, and at Bakewell.

Halpern, Sidney Gerald; 1951, A.C.A.; (Cecil Halpern & Co), 18 Charing Cross Road, London, WC2.

Hill, Joseph Henry; 1950, A.C.A.; (J. H. Hill & Co), 31, Connaught Avenue, Mutley, Plymouth.

Hodkin, Donald Henry; 1952, A.C.A.; (Donald Hodkin & Co), 'Brantford', Poynders Road, London, SW4.

Ingham, Geoffrey; 1953, A.C.A.; (*W. Wells & Co), 18, Hallfield Road, Bradford, 1.

John, Albert; 1953, A.C.A.; 20 Cambridge Road, Hove.

Jones, Kenneth Watts; 1953, A.C.A.; (K. W. Jones & Co), 25 Kirkland Avenue, Barkingside, Ilford, Essex.

King, Leonard Charles Victor; 1953, A.C.A.; (*Francis F. King & Son), Queen's House, Leicester Square, London, WC2, and at Amersham.

Mellor, William; 1949, A.C.A.; 'The Pebbles' Hayfield Road, Birch Vale, near Stockport.

O'Malley, James Patrick; 1952, A.C.A.; 1 Scape Lane, Great Crosby, Liverpool, 23.

Prior, Allen James, B.Sc.; 1937, A.C.A.; 179 Ruden Way, Epsom Downs, Surrey.

Schlee, Robert Anthony; 1950, A.C.A.; (*Rowley, Pemberton & Co), Lloyds Building, 3-4 Lime Street, London, EC3, and 166 Camden High Street, London, NW1.

Smith, Thomas Leighton; 1952, A.C.A.; (*Hough & Son), 1 Newgate Street, Newcastle upon Tyne, 1.

Spurway, Paul Francis, M.A.; 1953, A.C.A.; (R. H. March, Son & Co), Baltic House, Mount Stuart Square, and 8 Windsor Place, Cardiff, and at London.

Ward, Walter; 1952, A.C.A.; 36 Walsingham Road, Clapton, London, E5.

Washbrook, Charles Henry; 1953, A.C.A.; 47 Haslucks Croft, Shirley, Birmingham.

Windle, Ian Peter, M.A.; 1949, A.C.A.; 21 Guildhall Buildings, Navigation Street, Birmingham, 2.

* placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

(2) That one associate be elected to fellowship under clauses 9 and 31 of the supplemental Charter (bye-law 37).

(3) That thirteen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(4) That ten applicants be admitted as associates under clause 5 of the supplemental Charter (bye-law 31).

(5) That seven applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or ship before October 20th will appear in *The Accountant* of October 24th.

Election to Council

Mr. J. R. McNeil, F.C.A., Hove, was elected to fill the vacancy on the Council caused by the death of Mr. J. R. Morgan-Jones, F.C.A., Eastbourne.

Resignation from the Council

Mr. J. R. McNeil received with regret the resignation of Mr. Stuart Mackenzie, A.C.A., Manchester, of his membership of the Council. Mr. Mackenzie had been a member of the Council since 1948 and was a member of the Finance and Library Committees.

Registration of Articles

The Secretary reported that 285 articles of clerkship were registered during the months of August and September 1953, as compared with 300 in the previous August and September.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- Mr Lionel Ashley Baddeley, M.C., F.C.A., Lingfield.
- „ Michael Charles, A.C.A., London.
- „ Frederick Piercey Coates, F.C.A., Rotherham.
- „ Ernest William Glaister, F.C.A., Carlisle.
- „ John Albert Deakin Hale, F.C.A., London.
- „ William Price Hale, F.C.A., Coventry.
- „ Hari Prosad Khandelwal, B.COM., A.C.A., Calcutta.
- „ Albert Edgar Perkins, F.C.A., Bristol.
- „ Yorke Sails, A.C.A., Southampton.
- „ Edward George Thorne, F.C.A., Hereford.
- „ Douglas John Ward, M.C., A.C.A., Aberdovey.
- „ Arthur Reginald Welchman, F.C.A., London.
- „ Frank John Wheeler, F.C.A., London.
- „ Percy Wheelock, A.C.A., Birmingham.
- „ Allan Herbert Wynn, A.C.A., London.

OWNERSHIP OF RECORDS

The following revised opinion has been given by counsel (September 1953) following the decision of the Court of Appeal in Chantrey Martin & Co v. Martin ([1953] 3 W.L.R. 459) and replaces the statement at pages 140 to 142 of the Members' Handbook.

(1) The following opinion has been given by counsel (September 1953) on the question whether an accountant has the right to retain various types of records.

(2) The opinion applies whether the accountant is acting as accountant or as auditor (whether under a private arrangement or under the Companies Act, 1948) or as receiver.

(3) The opinion is given on the basis that the contract between the accountant and his client is silent upon the matters in question. The accountant's rights could,

of course, be altered expressly or by necessary implication in any such contract and to some extent they depend upon the facts and circumstances of each particular case.

Working Papers

(4) An accountant's working papers are his own property and he is entitled to retain them. His right to retain his working papers is not altered by the state of his client's records. The expression 'working papers' is used here to mean any document that the accountant or his staff may prepare in order to help him carry out the work which he is engaged to do; for example, draft profit and loss accounts and draft balance sheets and schedules prepared from incomplete records to enable such draft accounts to be prepared, and draft reports. These documents are prepared for the accountant's own purpose and the client can have no claim to them.

(5) The above opinion is in accordance with the decision of the Court of Appeal in *Chantrey & Co v. Martin*, where the Court held that the documents were the property of the firm of accountants who acted as auditors of a company: working papers and schedules relating to the audit, draft accounts of the company, the accountants' office copy of the company's typed accounts of the company, notes and calculations relating to these draft accounts made by a partner of the firm of accountants, and the draft tax computations prepared by an employee of the firm of accountants.

Correspondence with Clients

(6) Letters received by the accountant from his client are the accountant's property and may be retained by him. So may the accountant's copies of his letters to his client. Clearly when the accountant writes to his client he is not writing on his client's behalf or anyone's behalf but his own. Equally clearly, the accountant's copies of such letters are made solely for his own purposes. (*In re Wheatcroft* (6 Ch.D.97).)

Communications with Third Parties

(7) In *Chantrey Martin & Co v. Martin* the Court of Appeal held that correspondence between the account-

ants and the Inland Revenue in regard to the company's accounts and tax computations thereon (both the copies of letters sent and the originals of letters received) were the property of the client. This decision was on the basis that the accountants had been acting as agents for the client for the purpose of settling with the Inland Revenue the client's tax liability; and accordingly the Court followed the principle expressed by Lord Justice Mackinnon in *Leicestershire County Council v. Michael Faraday & Partners Ltd* ([1941] 2 K.B. 216) that if an agent brings into existence certain documents whilst in the employment of his principal, they are the principal's documents and the principal can claim that the agent should hand them over.

(8) Having regard to the basis on which the Court of Appeal reached its decision regarding correspondence with the Inland Revenue, it is considered that the Courts would hold that communications with third parties and copies of communications by the accountant to third parties are the property of the accountant where the relationship is that of client and professional man and not, as in the case of communications with the Inland Revenue, that of principal and agent. It is considered, for example, that certificates of bank balances, certificates of the custody of securities, statements confirming or otherwise the balance of an account between a third party and the client, and other documents which the accountants have obtained for their own use in carrying out their duties in a professional capacity would be held to be the property of the accountants, notwithstanding that they have been brought into existence in connection with work done for the client.

Compliance with Clients' Requests

(9) Where there is any doubt as to the legal ownership of communications with third parties, it would generally be wise for the accountant, whilst keeping copies for his own protection, to supply the client with any documents the client may require (unless the accountant desires the doubtful distinction of giving his name to a leading case).

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on August 5th and September 2nd, 1953.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Arthur Harry Greenwood, F.C.A., (a) was at the Bow Street Magistrate's Court on December 18th, 1952, convicted for failure to send the prescribed statement to the Registrar of Companies contrary to Section 342 of the Companies Act, 1948, as liquidator of a limited company; (b) was at the Magistrate's Court, Kingston-on-Thames, Surrey, on February 25th, 1953, convicted for failure to send the prescribed statement to the Registrar of Companies contrary to Section 342 of the Companies Act, 1948, as liquidator of a second limited company; (c) had been guilty of a default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supple-

mental Royal Charter in that he failed to reply to two letters addressed to him by the Secretary of the Institute on the subject of the conviction on February 25th, 1953, so as to render himself liable to exclusion or suspension from membership of the Institute. The committee found that the formal complaint against Arthur Harry Greenwood, F.C.A., had been proved under all headings and the committee ordered that Arthur Harry Greenwood, F.C.A., of 4 Market Place, Kingston-on-Thames, be excluded from membership of the Institute.

A formal complaint preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council under clause 21, sub-clause (2) of the supplemental Royal Charter

found to be proved, but the committee decided, in view of the most exceptional circumstances, to take no action and to omit the name of the member from the publication of the Finding and Decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Wilfrid Harry Godwin, A.C.A., had been guilty of an act or default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that being a co-trustee of the estate of a deceased person he misappropriated to his own use the sum of £200, being moneys belonging to the said estate, so as to render himself liable to exclusion or suspension from membership of the Institute. The committee found that the formal complaint against Wilfrid Harry Godwin, A.C.A., had been proved and the committee ordered that Wilfrid Harry Godwin, A.C.A., of 50

Market Square, St Neots, Huntingdonshire, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Alexander Holmes, A.C.A., had been guilty of an act or default discreditable to a member of the Institute within the meaning of clause 21, sub-clause (3) of the supplemental Royal Charter in that while in employment he misappropriated and/or failed to account for moneys belonging to his employers amounting to £395 17s 2d so as to render himself liable to exclusion or suspension from membership of the Institute. The committee found that the formal complaint against John Alexander Holmes, A.C.A., had been proved and the committee ordered that John Alexander Holmes, A.C.A., of 91 High Street, Stevenage, Hertfordshire, be excluded from membership of the Institute.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

LIST OF MEMBERS, 1954

We have been asked by the Secretary of the Institute to remind members that the latest date for the receipt of changes of address and other details for inclusion in the 1954 *List of Members* is November 20th, 1953.

Personal

MESSRS JOHN H. SAUNTER & Co, Chartered Accountants, of 2 Clement's Inn, Strand, London, WC2, announce that they have admitted as a partner, from October 1st, 1953, Mr JACK ROYSTON CHAPPELL, A.C.A., who has been associated with the firm for some years. The practice will be carried on under the style of SAUNTER, CHAPPELL & Co.

MESSRS JOSIAH BEDDOW & SON, of 15-17 Eldon Street, London, EC2, announce that MR DONALD SLADDEN, F.C.A., retired from the firm as from October 1st, 1953 to take up a commercial appointment. The practice will be carried on by the remaining partners and the style of the firm will remain unchanged.

MESSRS FOSTER, LINTON & Co, of 3 Barn Rise, Wembley Park, announce that as from October 19th, 1953, they are removing their offices to 11-12 Neeld Parade, Wembley Hill Road, Wembley, Middlesex. Telephone: Wembley 9686-8.

MESSRS J. EARLE HODGES, WRIGHT, JUDD & Co, Chartered Accountants, of Ridgway House, 41 and 42 King William Street, London, EC4, announce that Mr R. D. JUDD, F.C.A., has resigned as a partner preparatory to taking up residence in Southern Rhodesia, and that Mr T. H. C. AMIES, F.C.A., the remaining partner, has taken into partnership Mr GEOFFREY BOWYER, M.A., A.C.A.

Professional Notes

Mr Walter Oppenheimer, F.C.A., has been appointed to the board of Westland Aircraft Ltd and will be in charge of finance.

Mr S. C. Hand, F.C.A., has been appointed a director of Henry Boot & Sons Ltd.

Mr E. Shires, A.C.A., has been appointed secretary of Joshua Hoyle & Sons Ltd, of 50 Piccadilly, Manchester, 1, as from October 1st, 1953. Mr Shires was previously assistant secretary of the company.

The Chartered Accountant Students' Society of London

PRESIDENT'S MEETING

Marshal of the Royal Air Force Sir John Slessor, G.C.B., D.S.O., M.C., was the guest speaker at the president's meeting of the Chartered Accountant Students' Society of London, held in Guildhall, on Wednesday of last week. The Lord Mayor of London,

JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SW1

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VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Sir Rupert De la Beré, K.C.V.O., M.P., was also present and addressed the meeting, which was attended by well over 600 members. Sir Harold Gillett, M.C., F.C.A., President of the Students' Society, was in the chair.

NEXT WEEK'S MEETINGS

The following meetings of the London Students' Society will be held during next week:

Monday - Final Course Lectures: 11.15 a.m.: 'Cost control for management', by Mr P. Wood, A.C.A. (Controller, Colgate-Palmolive-Peet Ltd). 2.0 p.m.: 'The work of executors and trustees', by Mr M. W. Lockyer, A.I.B.

5.30 p.m.: A discussion on a set of final accounts, by Col. J. D. Crosthwaite, D.S.O., M.C., F.C.A. (stock-broker), Mr T. J. Cogar (banker), and Mr E. A. Crossland (H.M.I.T.). *Chairman:* Professor W. T. Baxter, B.COM., C.A. (Professor of Accounting, University of London).

Tuesday - Final Course Lectures: 9.30 a.m.: 'Assurance and insurance', by Mr S. R. Fenwick, F.C.I.I. (Assistant Manager, Home Accident Dept., Prudential Assurance Co). 11.15 a.m.: 'Dollars and sterling', by Mr H. Hunter. 2.0 p.m.: 'Banking practice', by Mr G. I. Williamson (Assistant manager, Midland Bank, Overseas Branch). 3.45 p.m.: 'The effects of rising price levels upon accounts', by Mr F. R. M. de Paula, C.B.E., F.C.A.

5.30 p.m.: Demonstrations of Burroughs and Underwood Mechanized Accounting (limited parties).

Wednesday - 12.30 p.m.: Visit to Ford Motor Works (limited party).

Thursday - 5.30 p.m.: Beginners debate (limited numbers). Motion: 'That the present licensing laws encourage drunkenness and disorder'.

Friday - Visits to the Royal Mint (limited parties). 5.15 p.m.: Introductory course lectures on (1) 'The fundamentals of auditing'; (2) 'The law on agreements and damages'.

The Institute of Cost and Works Accountants

The one-day North Regional Conference of the Institute of Cost and Works Accountants held last Saturday in Sheffield, was opened by the Lord Mayor of Sheffield, Councillor O. S. Holmes, J.P., F.C.A., A.C.W.A. Two papers were presented: that at the morning session was on 'The evolution of management accounts', by Mr C. A. Wilkes, A.C.W.A., A.C.I.S., and in the afternoon Mr R. G. Ward, F.C.W.A. spoke on 'Co-ordination of production planning and cost accounting in management.'

The guest of honour at the conference luncheon was Mr R. L. Walsh, the Master Cutler.

Cost Accounting and Productivity

At the request of the Board of Trade the Institute of Cost and Works Accountants is arranging a public meeting to hear a panel discussion between members of a team of representatives from a number of European countries who went to the U.S.A. under the auspices of the Organization for European Economic Co-operation, on a mission somewhat similar to that of the British Management Accountancy team.

Sir Leslie Boyce, a past Lord Mayor of London, will be in the chair and the speakers will be:

Mr Ronald W. Parker, C.A. (*Team Leader*);

M Paul Francin (*France*);

Professor van der Schroeff (*Holland*);

supported also by:

M Francois M. Richard (*Leader of the French Accountancy Team*);

Mr Ian T. Morrow, C.A., F.C.W.A. (*Leader of the British Management Accountancy Team*);

Mr John Craig, C.A. (*Member of the British Management Accountancy Team*);

Mr Stanley J. D. Berger, M.C., F.C.I.S. (*Member of the British Management Accountancy Team*).

The meeting will be held at Beaver Hall, Garlick Hill, London, EC4, on Thursday, October 22nd, commencing at 5.30 p.m.

A cordial invitation to attend is extended to all our readers. Free tickets of admission may be obtained on application to the Institute of Cost and Works Accountants, 63 Portland Place, London, W1.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 19TH, 1878

Extract from a Note in Passing

Professional Etiquette

Those of our readers who read either for amusement or instruction the *Law Times*, cannot have failed to notice the difference between the tone which pervades its principal editorial columns, and that of those over which a solicitor maintains an advertised control. The former reflects a moderately impartial mind, which at least strives to be fair; the latter mirrors a petty spirit, which is never happy but when flattering the caste to which it belongs, and traducing its competitors towards the goal of success. Not that the flattering is always straightforward, though the traducing generally is; but beneath the guise of a care for "professional etiquette" (a most elastic term), selfishness of the most pronounced type may generally be discerned. . . .

MOTOR — FIRE — CONSEQUENTIAL LOSS

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The Accountant

ESTABLISHED 1874

OCTOBER 24TH, 1953

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CONTENTS

Leading Article	<i>Page</i>
Losing a Client	461
Special Article	
Costs and Remuneration of Trustees by <i>Spencer G. Maurice</i>	463
The Institute's Autumnal Meeting	
Wife's Eye View by <i>Charlotte Clarke</i>	469
The Accountant as Financial Adviser - II by <i>K. A. E. Moore, F.C.A.</i>	471
Weekly Notes	
New Member of the Council - Balancing Charges on Nationalized Lorries - Political Propaganda not a Deductible Expense - Between two Budgets - The Motor Show	476
Finance and Commerce	
Crown Zellerbach Corporation - Monsanto Chemicals Ltd - Cellactite & British Uralite Ltd - Fleetwood Paints Ltd - Money Market	478
Correspondence	480
The Institute of Chartered Accountants in England and Wales	
Memorandum to the Select Committee on Nationalized Industries	483
The Association of Scottish Chartered Accountants in London	
Annual Dinner	485
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Associates elected to Fellowship and applicants admitted to membership - Personal - Professional Notes - Obituary - London and District Society of Chartered Accountants - Central London Discussion Group - The Chartered Accountant Students' Society of London - <i>Annotated Tax Cases</i> - Seventy-five Years Ago	486

LOSING A CLIENT

'None of us likes to lose business, especially if the client in question is one for whom we have acted for a great many years and to whom, so far as we are aware, we have given every satisfaction.'

THESE are the words of MR JAMES BLAKEY, F.C.A., in his opening address at the Institute's recent autumnal meeting.¹ MR BLAKEY was speaking about professional conduct when a change of auditor or professional accountant is proposed. He continued:

'We may well object to the change in the sense that we do not wish to lose a client. This is irrelevant so far as the proposed new auditor or accountant is concerned. What he wants to know is whether there is any *professional reason* why he should not undertake the work.'

The President was, of course, addressing members of the Institute and his remarks were by way of advice to members on the method of carrying out the duty, as laid down in the Council's statement of June 6th, 1951, of communicating with the previous auditor or professional accountant before accepting nomination. Nevertheless, there are two excellent reasons why the President's remarks should be read and appreciated by all public accountants.

One reason is that every public accountant worthy of the name will readily accept the duty to communicate. The other, and perhaps more pertinent, reason is that the Council's statement specifically says that a member's duty to communicate is not confined to cases where the previous appointment was held by a member of the Institute. Thus the recipient of the communication may be a member of another body or of none.

There has apparently been some misunderstanding of the purpose of imposing the duty to communicate and, in consequence, some misconception of the nature of the communication. Such misunderstanding ought not to have existed since the Council issued its 1951 statement amplifying those previously made. The 1951 statement sets out the purpose in the clearest terms:

'It is essential that the member who is proposed for appointment, whether as auditor or as professional accountant, shall have an opportunity of knowing all the reasons for the change and this requirement can only be fulfilled by direct communication with the holder of the existing appointment.'

'Apart from any question of professional courtesy it is important that the legitimate interests of the public and the independence of the existing auditor or professional accountant should be safeguarded and that a communication should take place even though the change is a matter wholly within the discretion of the appointor.'

¹ *The Accountant*, October 17th, 1953, page 444.

A client's legitimate freedom of choice is in no way threatened or interfered with by this statement. Nothing could be more remote from the object than to give the existing auditor or professional accountant the opportunity of responding on the lines of 'I have held this job since the business was founded fifteen years ago. It would be unprofessional for you to take it away from me'. It is therefore inviting trouble if the communication is in the form of a request to know whether the existing auditor or accountant has any *objection* to the change. Of course he objects!

As MR BLAKEY has pointed out, what the proposed new auditor or accountant wants to know is whether there is any professional reason why he should not undertake the work. MR BLAKEY continued:

'When the member has considered any information which the existing auditor or accountant may give to him, it is up to him to decide whether to accept nomination, bearing in mind that a client who has decided upon a change is likely to make a change in any event and may well be driven into the hands of an unqualified practitioner if he is not able to get a qualified accountant to undertake the work. The important feature is the duty to communicate. This enables the existing auditor or accountant to give any information which he thinks the proposed new one should have.'

These are wise words. If the existing auditor or accountant is being removed because of his integrity, it is clearly essential that this should be known to the proposed successor. It is also clear that a client who is determined to make a change will in fact make a change, whatever obstacles are in his path. Usually, therefore, more harm than good is likely to result from efforts to retain an appointment. This is equally true where the client's motives are in no way suspect. Anything which savours of an attempt to restrict the legitimate free choice of auditor or professional accountant will not add to the public esteem of which the profession is proud.

It follows that there is much to be said in favour of the existing auditor or professional accountant doing his best to facilitate the change-over, where the proposed new auditor or accountant holds a recognized qualification and the client's desire to change is not a necessity born of

keeping with the dignity of the profession. Nor is it consonant with self-respect. The likelihood is that, in general, reputable accountants adopt a 'grin and bear it' attitude.

For example, a private company which, for good reason, desires to change its auditor, may find that it can do so only at the next annual general meeting, although no audit work has yet been done since the last meeting. It seems desirable that there should be a resignation and the filling of a casual vacancy, rather than the creation of much ill feeling by an attempt to stand on technicalities.

Where a client, for good reason, desires an immediate change by voluntary resignation, the alternatives to resignation may be continuance until the next accounts are presented, or precipitate removal accompanied by the risk of action in the Courts. If the auditor facilitates the change by voluntary resignation, it would not be unreasonable, in some circumstances, to expect some voluntary financial compensation. Such an expectation is unlikely to be fulfilled if the shareholders, with or without valid reasons, have lost confidence in the auditor. But it would be a reasonable expectation where an audit has been held for many years and the only reason for the change is the desire of a new controlling shareholder to use the services of the auditor of other companies under his control.

Sometimes another aspect of fees arises on a proposed change of auditor or professional accountant. Arrears of fees of the existing auditor or accountant may be unpaid and he may take the view that his proposed successor should require the account to be settled as a condition of accepting appointment. Such an attitude does not seem reasonable. The settlement of the account should concern only the parties to it, though its existence may indicate a need for caution on the part of the proposed successor and it may have given rise to a lien on records which the successor will need.

Questions of compensation and outstanding fees were not, of course, mentioned by MR BLAKEY. He did make some remarks on a further matter not dealt with in the foregoing observations, namely, the time at which the communica-

COSTS AND REMUNERATION OF TRUSTEES

by SPENCER G. MAURICE

ONEROUS indeed is the office of trustee and one not lightly to be undertaken. Too often trusteeship brings hours of weary toil, and the law, solicitous for the welfare of the beneficiaries, is a stern taskmaster, ever ready to castigate the trustee for the slightest derogation from his duty. Yet how often it is an office undertaken purely from a sense of duty or because its acceptance is for some reason virtually unavoidable.

Save for those corporations, such as certain banks, which undertake executor and trustee business in accordance with a scale of charges, there is usually no hope of gain, and always the danger that some unwitting but foolish action may involve recompense out of the trustee's private purse of loss suffered by the trust estate.

Costs Generally Allowed

The invidious position of a trustee is illustrated by the recent case of *In re Dargie, Miller v. Thornton-Jones and Others* ([1953] 2 All E.R. 577), where the trustees embarked on litigation and suffered heavily in the matter of costs. It is, of course, most common for trustees to be forced to invoke the aid of the Court to settle some problem arising from the administration of the trust, and, great though the time and trouble involved may in that event be, they are not as a rule required to put their hands in their own pockets.

Though the law deals severely with trustees, it recognizes that there must be reason in all things, and accordingly that the trustee who properly executes his trust must be indemnified for his out of pocket expenses. Were this not the rule, it would be virtually impossible to find anyone to act as trustee at all. Thus in *Poole v. Pass* ((1839), 1 Beav. 600), Lord Langdale, M.R., on counsel for the trustee asking for costs, as between solicitor and client, and the costs of opinion taken, said (at page 605):

'Yes; I think no trustee would be safe unless such costs were allowed.'

The taxing master was accordingly ordered to tax the trustee

'his costs of this suit, as between solicitor and client, and to tax him his charges and expenses, properly incurred. . . .' (*ibid.*).

Costs Disallowed

In *In re Dargie*, however, there was litigation of a hostile nature between the trustees and the

beneficiaries. The latter issued a writ claiming, *inter alia*, an account of remuneration received by the trustees as directors of a limited company in the shares of which trust moneys were invested, and Wynn-Parry, J., before whom the matter was tried, came to the conclusion that the trustees were right in some respects but that in others their claims were not well founded. The order which he made as to costs was that the costs of all parties as between solicitor and client should be taxed and paid out of the estate, and the taxing master, on the costs being referred to him, disallowed a certain amount on the bills both of the beneficiaries and of the trustees, in the case of the trustees some £437. This sum of £437 the trustees claimed to be entitled to withdraw from the trust estate, and one of the beneficiaries issued an originating summons, which came before Vaisey, J., to determine whether, having regard to the order of Wynn-Parry, J., the trustees were entitled to do so.

The Indemnity Basis

Vaisey, J., considered whether the intention of the trial judge was that the trustees should have their costs on an indemnity basis and came to the conclusion that it was not, and that all that they were entitled to under his order was taxation of their costs on a generous scale falling short of a taxation which was intended entirely to indemnify them. He went on (at page 580):

'I know that there is a general idea that trustees are always entitled to their costs on an indemnity basis, and there is a certain amount of truth in that, provided always that the costs in question have been incurred solely for the purpose of benefiting the trust estate. There is no such rule - certainly I can find no trace of there being any such rule - where the litigation, for it is litigation that we are speaking of in this case, was designed to define and secure the personal rights of the trustees as individuals, and I cannot see on what ground it should be said that it would follow as a natural consequence that, if the judge had been asked, he would have said: "Oh, of course, as trustees they are entitled to be fully indemnified".'

He pointed to the different wording of the order in *Poole v. Pass*, where, as he said,

'... counsel was very careful to ask for some additional words to be put in to entitle his clients to more than the solicitor and client costs of an action, something for the extra costs and expenses incident to and arising out of the action.'

Trustees Must Not Help Themselves

To the suggestion that the trustees should be entitled to recoup themselves from the trust fund the amount disallowed, Vaisey, J., thought that he ought not to give the slightest approval. As he said (at page 581),

"The trustees would be saying to the taxing master: 'Tax our costs as between solicitor and client. Disallow anything you like. It does not matter to us in the very least how you tax these costs because we shall, as a matter of right, take out of the trust estate and put into our own pockets the whole of our bill of costs whether you allow it or disallow it.'"

Clearly, that could not be right.

The learned judge referred to a decision of his own, *In re Robertson, Public Trustee v. Robertson* ([1949], 1 All E.R. 1042), as an authority which shows that the proper procedure to be followed by a trustee, part of whose expenses is disallowed on a solicitor and client taxation is, not to put the amount in question into his pocket, but to seek the directions of the Court. If, as in *In re Robertson*, the Court takes the view that the expenses were properly incurred, the trustee will get an order allowing him those expenses. If, on the other hand, as *In re Dargie* shows, the Court is of the opinion that the expenses in question were incurred for the trustees' own benefit rather than that of the trust estate, the application of the trustee will not succeed. Moreover, there is a final warning to be drawn from *In re Dargie*; the plaintiff's application having succeeded, the defendant trustees were ordered to pay the cost of it personally as between party and party: a trustee who makes an unsuccessful application regarding costs disallowed may expect to be similarly mulcted.

The Nature of Remuneration

Whereas, then, a trustee may normally expect to receive his out of pocket expenses, unless in incurring expenses he has been acting on his own account, he can seldom hope for any profit from his labours, except where he has entered into a contract with the founder of the trust, undertaking to act only for some agreed reward; and such an arrangement in no way lessens his responsibilities as a trustee. Not uncommonly, however, the founder of a trust, whether founded by will or otherwise, makes provision for some remuneration of his trustee, albeit that remuneration is generally not commensurate with the time and trouble involved in the trusteeship. What are the rights of the trustee in such a case?

The most usual case of a trustee in receipt of

remuneration is that of a solicitor who, on being appointed as a trustee, is given the right to profit, costs out of the trust estate. This happened in *In re Pooley* ((1888), 40 Ch. D. 1), where the solicitor in question also acted as a witness to the will. The Court of Appeal had to decide whether the right to profit costs was such a benefit under the will as is contemplated by Section 15 of the Wills Act, 1837, which precludes a witness to a will, and the spouse of such witness, from any benefit under it.

The Court decided that it was such a benefit, being none other than a legacy, so that the solicitor could not have his profit costs. Though not having to decide the point, Cotton, L.J., wondered what would be the position of another solicitor, succeeding the first solicitor as trustee and, by the terms of the will, also entitled to profit costs; not being a witness, there would be no objection to him having his profit costs, but would they be chargeable to legacy duty?

The question was answered in the affirmative, both by North, J., and, on appeal, by the Court of Appeal (Lindley, Bowen and Kay, L.JJ.) in *In re J. Thorley, Thorley v. Massam: In re W. R. Thorley, Thorley v. Massam* ([1891] 2 Ch. 613), where it was held that the fact that services had been rendered did not prevent a sum from being a legacy and liable to duty as such. That decision is, in spite of the abolition of legacy duty by Section 27 of the Finance Act, 1949, of more than academic interest, as an authority on the nature of such an interest created by will. That the right to profit costs was of the nature of a legacy was accepted also by Eve, J., in *In re Brown; Wace v. Smith* ([1918] W.N. 118), and he accordingly directed that such costs earned by a solicitor-trustee in that case should abate with the other legacies contained in the will.

Competition with Creditors

That a right to profit costs ranks lower than a right to a debt is shown by *In re White: Pennell v. Franklin*. There first Kekewich, J. ([1898] 1 Ch. 297), and subsequently the Court of Appeal (Sir Nathaniel Lindley, M.R., Chitty and Collins, L.JJ.) ([1898] 2 Ch. 217), held that a solicitor who was given such costs could not compete with ordinary creditors when the estate was insolvent. Chitty, L.J., observed that this rule applied, not only to solicitors, but to other professional trustees, and he instanced accountants, architects and surveyors. *In re White* was applied by Eve, J., and the Court of Appeal (Sir H. H. Cozens-Hardy, M.R., Farwell and Kennedy, L.JJ.) in *In re Salmen, Salmen v. Bernstein*

► ([1912] 107 L.T. 108). There one of the trustees was employed by his co-trustees to manage the testator's business at a salary; the estate was insolvent, and he was held not entitled to compete with the creditors.

An interesting point about *In re Salmen* is that a summons was taken out, asking that the executors and trustees might be at liberty to carry on the testator's business and employ one of their number to manage it, but, unaccountably, no order was made on the summons. If an order had been made, and the manager's remuneration had been fixed by it, it seems not improbable that the Court would subsequently have held him entitled to claim as a creditor of the estate on a par with the other ordinary and unsecured creditors.

► The Court's power to order remuneration of a trustee has long been recognized. In *Foster v. Ridley* ([1864] 4 De G. J. & S. 452), for example, the Court of Appeal in Chancery (Knight Bruce and Turner, L.JJ.) fixed the remuneration of executors and trustees for trouble and loss of time in managing the testator's leaseholds and carrying on his business, and although in that case the Court fixed the remuneration itself without an inquiry what would be appropriate, such an inquiry is in fact quite commonly ordered.

Jurisdiction of the Court

In *In re Salmen*, Eve, J., cited *Foster v. Ridley* as authority for the Court's jurisdiction to provide for remuneration out of the trust estate even in the absence of special provisions in a testator's will. But he thought it was

'... a jurisdiction which must be founded on some proposition of this sort: that the circumstances of the case raise an implied contract on the part of those persons against whom the claim for remuneration is made to remuneration for services which the person claiming to be remunerated has discharged, or must be presumed to have discharged, at the invitation of the person against whom the remuneration is sought to be recovered, and who must, therefore, be presumed to have agreed to pay such remuneration in consideration of services so rendered. Apart from that, I cannot think that the Court would ever impose upon creditors in the position of the creditors in the present case an obligation to pay executors and trustees for work which, in the absence of express contract, they are bound to do without remuneration.' (at page 110).

It may be observed that Eve, J., only had to consider the competing claims of creditors since there was nothing for beneficiaries in any case;

but it is reasonably clear that the Court can order trustees to be remunerated at the expense of any type of legatee under the will. Section 42 of the Trustee Act, 1925, gives the Court jurisdiction to authorize remuneration of a corporation which it appoints as trustee, and in the recent case of *In re Masters; Coutts & Company v. Masters and Others* ([1953] 1 All E.R. 19), Danckwerts, J., held that the Court had similar jurisdiction where a corporation was appointed as an administrator, quite apart from its inherent jurisdiction to authorize remuneration of a trustee.

Income Tax and Estate Duty

Another aspect of the matter of trustees' remuneration is that of liability to income-tax and estate duty. Reference has already been made to *In re Thorley*, where the Court of Appeal held that the remuneration of a trustee was liable to legacy duty. In *Attorney-General v. Eyres and Others* ([1909] 1 K.B. 723) the question for decision was whether estate duty was payable when one trustee succeeded another on the other's death. Channell, J., decided that duty was not payable, because the case was within the exception in Section 2 (1) (b) of the Finance Act, 1894, which provides that property in which the deceased or any other person had an interest ceasing on the death of the deceased, to the extent to which a benefit accrues or arises by the cesser of such interest, is deemed to pass, so as to be liable to estate duty

'... but exclusive of property the interest in which of the deceased or other party was only an interest as [*inter alia*] holder of an office. . . .'

Trusteeship, the learned judge held, is an office within the meaning of the section.

The Nature of Remuneration for Tax Purposes

In *Baxendale v. Murphy* ([1924] 3 A.T.C 518; 2 K.B. 494), Rowlatt, J., held that annual remuneration payable to a trustee was payable wholly out of profits or gains brought into charge to tax within Rule 19 of the All Schedules Rules in the Income Tax Act, 1918 (see now Income Tax Act, 1952, Section 169), and assessable under Case III of Schedule D. It seems that since that case the annual remuneration of trustees has generally been treated in this way for tax purposes, though it is to be observed that Rowlatt, J., in a later case (*Jones v. Wright* ([1927] 44 T.L.R. 128)), distinguished *Baxendale v. Murphy* and held that profit costs received by a solicitor-trustee were chargeable to tax under Case II of Schedule D

on the basis that there were the elements of a contract between the solicitor and his co-trustees so that the remuneration should be treated as profits and earnings arising from employment; in that case, therefore, the payments did not constitute annual payments payable wholly out of profits and gains brought into charge to tax within Rule 19.

The recent case in the House of Lords of *Dale and Others v. C.I.R.* ([1953] 2 All E.R. 671), though concerned with the transitory – and, it is to be hoped, extinct – special contribution imposed by Part V of the Finance Act, 1948, raised a question of importance in income-tax law. The testator appointed five persons to be his executors and trustees, and directed that each was to receive the sum of £1,000 *per annum* free of tax so long as he should continue to act as trustee. The duties of the trustees were heavy and responsible, and entailed the holding of frequent meetings. The question was whether the annual sum received by one of the trustees was ‘investment income’ within Section 47 (1) of the Finance Act, 1948, and so liable to special contribution, or earned income, which is defined in Section 14 (3) of the Income Tax Act, 1918 (see now Income Tax Act, 1952, Section 525 (1)), to include income arising in respect of remuneration from an office of profit, in which case it was not so liable.

Earned Income

As there was no employer, there could be no question of the income arising from an *employment* of profit, but Lord Normand (with whom the other noble and learned lords, Lords Oaksey, Morton of Henryton, Reid and Cohen, agreed) thought that ‘office’ was an apt word to describe the position of a trustee or any other person who rendered services but had no employer. Referring to *Attorney-General v. Eyres*, he agreed with Channell, J., that the word ‘office’ included trusteeship, and he took the view that if a trustee was given an annuity under a will on condition that he continued to act as a trustee, he held an office of profit.

‘The phrase’, said his lordship (at page 673), ‘is not a term of art and there is . . . no context which prevents it from being understood in its ordinary sense. To my mind, a remunerated office is an office of profit. Equally clearly the income received by the appellant because he continues to act as trustee is income arising in respect of remuneration from his office of trustee.’

Hence he thought that the income was clearly earned income within the meaning of Section 14 (3) of the Income Tax Act, 1918.

Fiduciary Duty of Trustees

This was enough to decide the case in favour of the appellant taxpayer, but Lord Normand went on to consider the judgment of Sir Raymond Evershed, M.R., when the case was before the Court of Appeal ([1952], 31 A.T.C. 237; 2 All E.R. 89), which had decided in favour of the Crown, reversing the decision of Harman, J. ([1951], 30 A.T.C. 235; 2 All E.R. 517), who had allowed the taxpayer’s appeal from the Special Commissioners. The learned Master of the Rolls had voiced the opinion that the office of trustee involved a denial of any right to make a profit out of its performance. This, thought Lord Normand, was an incorrect description of the fiduciary duty of trustees.

‘The fiduciary duty’, said Lord Normand (at page 674), ‘may arise, not only from trust, but also *ex lege* and *ex conventionione*. . . . The duty is, to use the Latin phrase, that the person subject to it must not become *actor in rem suam*. It applies to tutors and curators in the civil law, and it applies to tutors and curators in the Scots law. It applies also to judicial factors appointed by the Courts in Scotland, and to partners and to agents under a contract of agency, and, of course, to trustees under a settlement or under a will. That by no means exhausts the area of its operation. . . . Some who are subject to the duty are never entitled to remuneration; some are *ex lege* entitled to payment for their services; some are entitled to payment *ex conventionione*; and some are entitled to payment if the settlor or testator so directs. The rule is the same for all: it is not that reward for services is repugnant to the fiduciary duty, but that he who has the duty shall not take any secret remuneration or any financial benefit not authorized by the law, or by his contract, or by the trust deed under which he acts, as the case may be. In England, moreover, the Court has power to order payments to be made to trustees for whom the truster has made no such provision, a power which it is difficult to reconcile with a general principle that remuneration is repugnant to trusteeship.’

Reference has already been made to *Foster v. Ridley*, where the Court of Appeal in Chancery exercised just that power of ordering payments of which Lord Normand spoke.

Is it Bounty?

Lord Normand pointed out that the question whether or not income was earned income was one arising between the trustee and the Inland Revenue, and had no relation either to the trustee’s legal duty towards the trust and the beneficiaries, or to the legal conception that such

a payment as the one which the House of Lords was considering derived from the testator and could be regarded as a legacy. There was no incompatibility in saying that the income which the appellant received from the trust was the conditional gift of the testator, but that it had to be earned by compliance with the testator's condition of serving a trustee. Referring to the argument that the annual payment proceeded from the bounty of the testator, Lord Oaksey found it

'... no more a matter of bounty than the appointment of a particular person to any office of profit may be said to be the bounty of the person who makes the appointment.' (at page 677.)

Furthermore, he thought that there was no sound distinction between solicitors, who were frequently appointed trustees under wills providing for their remuneration, and the appellant, who was, indeed, a professional man. The Court of Appeal, in deciding in favour of the Crown, was influenced by *In re Pooley*, *In re Thorley*, and *In re White*, which have been referred to above, but Lord Cohen said of them (at page 678):

'I am unable to see anything in these decisions which prevents a trusteeship being properly described as an office of profit if a testator creates the office and attaches remuneration to it.'

Anomalies which Arise

It was contended for the Crown in *Dale v. C.I.R.* that, for reasons of construction which need not be considered in detail here, Section 14 (3) of the Income Tax Act, 1918, was not a self-contained definition of 'earned income', and did not cover the present case. The House of Lords rejected that contention, which was backed by an argument *ab inconvenienti* to the effect that a decision in favour of the appellant taxpayer would involve anomalies. This supporting argument fell to the ground by reason of the fact that their lordships did not think that Section 14 (3) was in any way ambiguous, but the anomalies in question, which were considered by Lord Normand, are worthy of notice, even though in two out of three instances neither Lord Normand nor the other noble and learned lords expressed any opinion.

In the first place it was argued that a decision in favour of the appellant would result in the assessment being transferred from Case III of Schedule D to Schedule E with consequential loss of the advantage obtained by the beneficiaries from Rule 19. This was disputed by counsel for the appellant, and Lord Normand expressed no opinion on the matter, but it is submitted that

the decision of Rowlatt, J., in *Jones v. Wright* is some authority in support of the point made by the Crown, especially since Lord Oaksey took the view (referred to above) that the position of solicitors for whose remuneration provision was made by will was not altogether peculiar.

Once Earned, Always Earned

Secondly, it was said that, if the appellant was right, then any bequest of an annuity to a trustee to continue as long as he continued to act as trustee would be earned income within the meaning of Section 14 (3), no matter what amount of work – how much or how little – was done to earn it: Lord Normand thought that this was so, and that the condition involved was continuing to act as a trustee, not the performance of valuable services as such; moreover, he pointed out that if the annuity were considered as investment income then the trustee must be regarded as having earned nothing by his services, although it was obvious that the testator intended him to perform services.

Thirdly, it was said that if an annuity to a trustee was to be regarded as remuneration, and therefore as earned income, so also must be a lump-sum legacy given to him on condition that he accepted the trust. Counsel for the appellant argued against this view, and Lord Normand again declined to express an opinion, but it is submitted that there is some force in the argument for the Crown: as the gift of a lump sum to a trustee is not unusual, it is likely that this point will in the future come before the Court for decision.

Since *Dale v. C.I.R.* has decided that annual payments received by trustees by way of remuneration are of the nature of earned income, it must follow, though the point was not apparently raised, that such payments may be taken into account by the taxpayer in calculating earned income relief. To that extent trustees have gained from the decision. But if the Crown in some future proceedings should succeed in showing that a lump-sum payment is also of the nature of income, and as such liable to tax, a trustee whose labours are rewarded by such a payment may well find the testator's bounty whittled away to a fraction of what was intended, especially if he is in receipt of a considerable income.

It seems that the testator who wants to ensure that his trustee receives some recompense for his work should think well what is the best method by which that recompense can be given.



(Left to right) Sir Bernhard Binder, F.C.A. (a Past President of the Institute); Mrs T. B. Robson and Mr T. B. Robson, F.C.A. (immediate Past President of the Institute), before the opening session of the autumnal meeting on Thursday morning



Mr James Blakey, F.C.A., President of the Institute (on the left), and Mr N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A., President of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants, take coffee together on Thursday morning



Some Hull members meet for cocktails at *The Grand Hotel*. (Left to right) Mr G. B. Robins, F.C.A., Mr E. C. Mallett, F.C.A.; Mrs A. N. Townsley; Mrs Mallett; Mrs Robins, and Mr A. N. Townsley, F.C.A.

THE INSTITUTE'S AUTUMNAL MEETING

WIFE'S EYE VIEW

by CHARLOTTE CLARKE

Thursday.—Sunshine and an autumnal mellowness set the tone for this first day's proceedings at the autumnal meeting of the Institute in Scarborough.

Find myself much exercised over my hat. Husband says that the one I propose to wear is too frivolous — we must look dignified and mature at all costs. He similarly spurns the plain felt brought in case of rain. Wear first in despair and suffer throughout day from conviction that it is both silly and unsuitable.

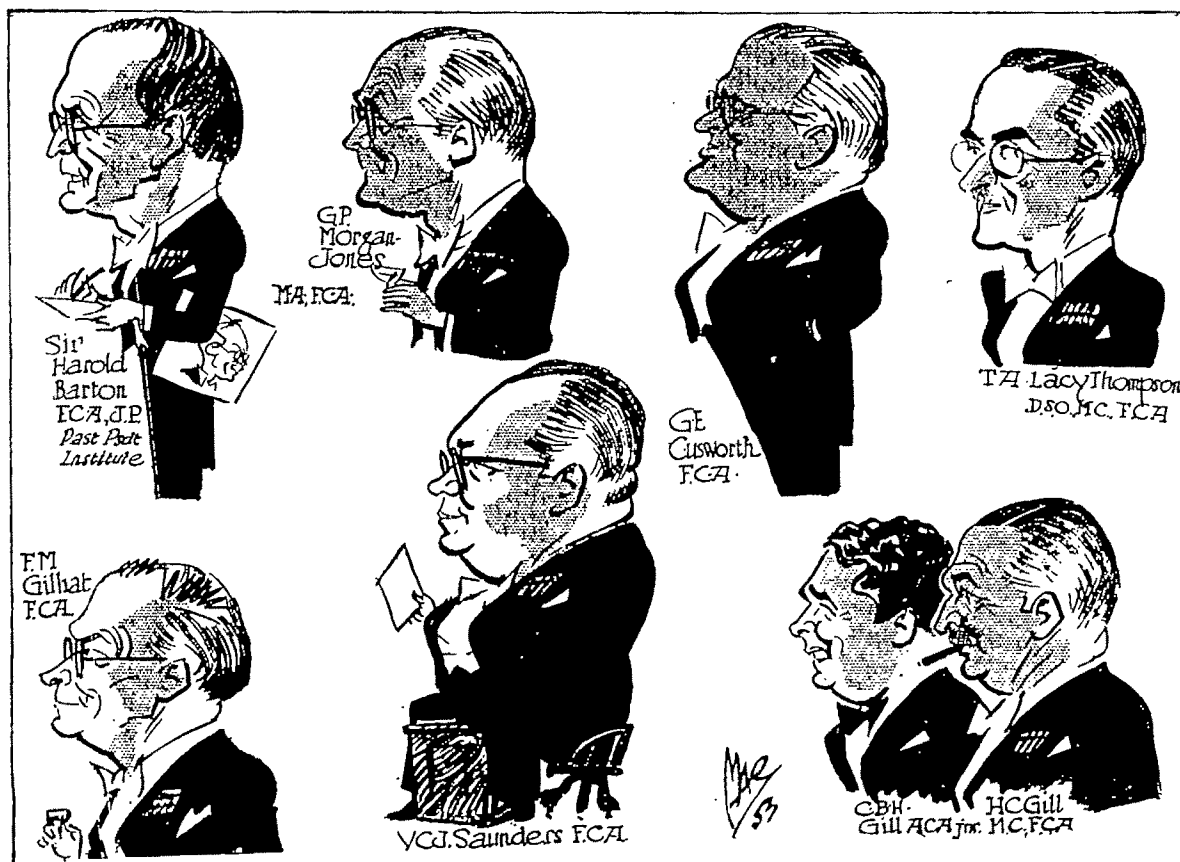
Large assembly of members and wives in conference hall for the Lord Mayor's welcome. H. nervously points out several eminent gentlemen, his voice tinged with awe. Am relieved to find that many of them look kindly, if a little abstracted. H. discovers friends during the coffee interval, becomes involved in an argument about flying saucers. So that's what they discuss at district society meetings!

After listening for a few moments I venture to

unfix my smile and suggest my departure. H. and friends, protesting that I must stay a little longer, edge me towards the door and I escape on to the sunlit front. The sands are smooth and gleaming, the sea surges to a crest of white, and an anxious photographer is cajoling a group of reluctant chartered accountants — who shuffle and grin and try to get behind each other's backs — into 'strolling and talking' before the camera.

Wait in hotel lounge for H. who is still at the presidential address. Observe many charming wives, hope that in time I may be able to emulate their elegance and self-possession. Sudden noise and laughter indicates that the morning session is over. H. arrives, still discussing with two friends the fine distinction between the industrial accountant's hard-earned pound and his practising colleague's aristocratic guinea.

After the reception, sherry and introductions, we go into lunch. Fascinated by the Lord Mayor's



account of the cross-eyed Assyrian book-keeper – feel that my own domestic accounts have an affinity with his. Am delighted to hear that the bowl of flowers on my dressing table is to be my own. Find myself hustled to my room, H. apparently anxious to reach the conference hall for the first paper.

Cut mannequin parade for tour of the harbour and King Richard's house, then return in time to dress for dinner and the ball. Conviction that H. will not approve of dress assails me, but vanishes when I realize that he is completely occupied with his own tie.

The Lord Mayor greets us all most graciously and a sparkle and abandon pervade the ballroom. Surprised to discover that chartered accountants dance so beautifully, and relieved to find that they can chat of this and that without constant reference to the Companies Act, the significance of which perpetually eludes me. Get quite above myself with delightful junior partner, and am firmly withdrawn from the throng by indignant H.

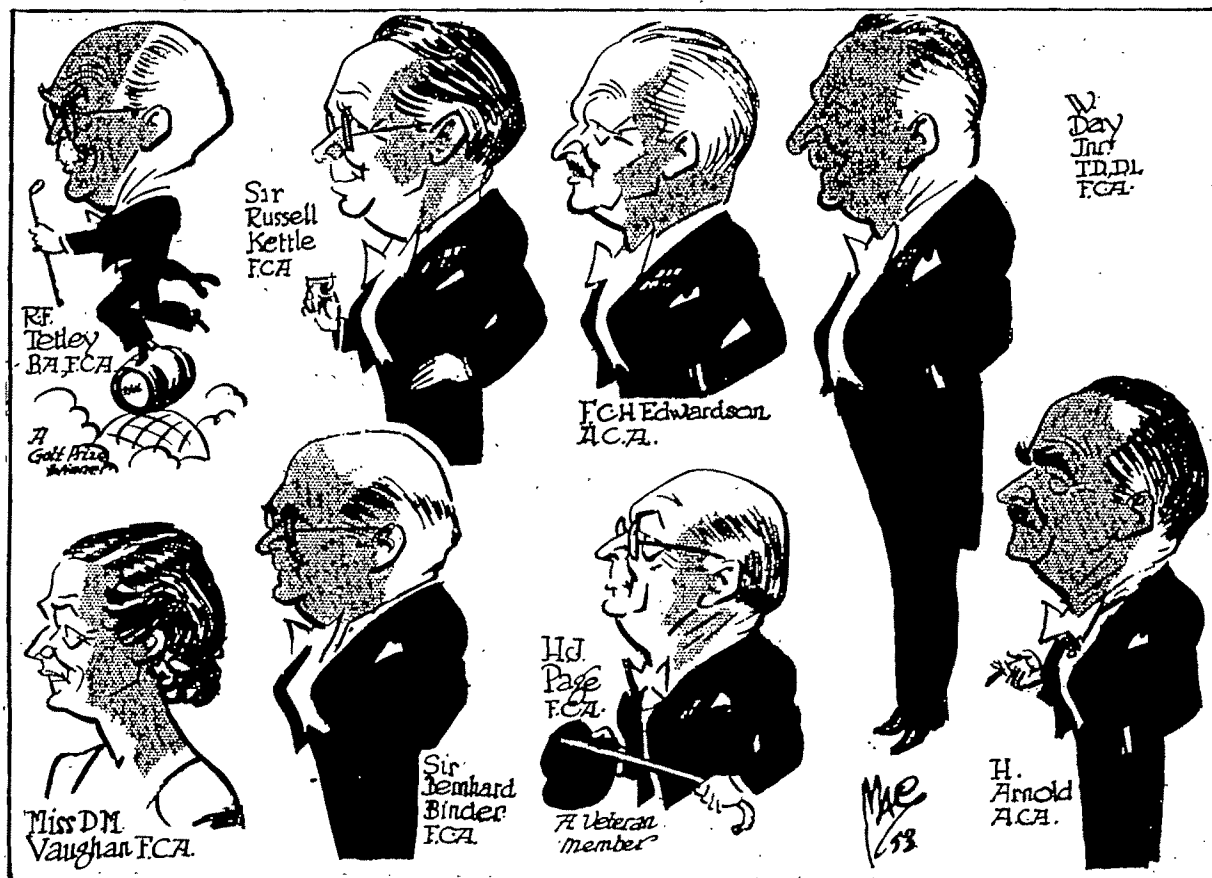
Friday. – Up early for our visit to Goathland. Heavy mist obscures Scarborough bay; hope it will allow us to see the Yorkshire moors. Coach carries us out of Scarborough. Notice two young

clerks peering gleefully from upper window of local accountant's office – doubtless anxious to verify their principal's departure. Pass through grey stone villages, beneath trees shedding yellow leaves, and cross the purple-grey moors.

Stop at Goathland and decide to visit famous waterspout before lunch. Sheep rush at us as we leave the bus and push noses into bags and pockets. Struggle, with others of our party, down a rough path to a rocky stream, then puff back up again, passing elderly but active accountant who is persevering nobly. H. appears to think me presumptuous in overtaking this nimble gentleman, and himself walks respectfully behind.

Excellent lunch, followed by sunlit run (with some nervous gasps from pillars of the Institute over steep hills) into Whitby. One hundred and ninety-nine steps up to the castle, solemnly counted aloud by conscientious accountant, who seems quite disappointed to confirm this figure. Back to Scarborough in swift-falling dusk, after tea in a Whitby hotel.

Dress hurriedly, then join friends at the banquet. Delicious food, some amusing speeches. Smile modestly at one speaker's neat turn of the phrase 'true and fair', and feel it to be a sensible



application of the term. Dance happily until midnight, then yawn my way to bed. Confidently estimate that I have gained three pounds in weight today – gloomy thought.

Saturday. – Sad to think that we must go home today. Attend simple but vastly impressive church service, hear a sermon which captures all one's attention, and join in familiar hymns. Out of church in uplifted mood to shop while H. attends last session. Contemplate several desirable but non-essential purchases, thought of H.'s wrath restrains me.

Meet friends with H. in the lounge, exchange addresses and promise to meet in two years'

time, and so to luncheon. More good food, followed by farewell speeches. Feel that the organizers must be very happy over the success of all their arrangements, and wish that I could thank them personally for a most enjoyable three days. Suggest this to H. who grimaces in horror, and keeps firm hand on my arm in case I should so disgrace him.

Depart reluctantly for the train, attempting to extract definite promise from H. that we shall attend next conference. H. replies that we have a large debit variance on our high days and holidays account for 1953 to investigate before any plans for 1955 can be considered. What *can* he mean?

THE ACCOUNTANT AS FINANCIAL ADVISER – II

by K. A. E. MOORE, F.C.A.

The Burden of Taxation

WHILE it is quite impossible within the compass of this paper to deal fully even with any one of the subjects to which I have referred there is a common thread which runs through most of them, namely, the direct and indirect effects of taxation. As we all know, the taxation of profits and personal incomes has reached a pitch in this country at which it intrudes at every turn. Not only is the advice of the professional accountant virtually essential for the computation of the liability, but also in the treatment of the secondary effects which it produces.

We are all familiar with the debilitating effect of the taxation of industrial profits at around 60 per cent. It has almost brought to a full-stop the time-honoured process by which business enterprise was built up by the ploughing-in of undistributed profits. Moreover, the position is aggravated by the inflationary trend of prices or the continuing debasement of the currency (whichever way you like to look at it) which, in itself, may be to some extent the product of high taxation.

Additional Capital Requirements

Thus industry is showing signs of pernicious financial anaemia and to maintain and, still more, to develop its activities, additional capital has to be raised. The advice of the professional accountant is constantly sought on the problem generally and, more particularly, as to the form in which the additional capital should be raised – whether by new share capital, ordinary or preference, by debenture, notes or bank overdraft – and the advice which is tendered is bound to be related to the taxation aspects involved. The subsequent stages – the framing of the

application to the Capital Issues Committee, the public prospectus, the negotiations with the issuing



Kenneth
A.E. Moore
F.C.A.

gives one of
the Conference
papers

-with
possibly a breezy
note! He is a
Keen Elyas and
yachtman.

house or institution – all call for advice and services from the professional accountant.

Pension Schemes

Then again, in the realm of personal incomes, one of the secondary effects of high taxation has been the growing call for staff pension schemes and

The concluding part of a paper presented on October 8th, 1953, at the twenty-first autumnal meeting, in Scarborough, of The Institute of Chartered Accountants in England and Wales.



Mrs Blakey presents prizes to Mr T. H. Burdon, F.C.A. (*left*), and Mr R. F. Tetley, B.A., A.C.A., winners of the bogey foursome at the conclusion of the Golf Competition on Friday.



Mr N. B. Hart (*left*) and Mr H. F. Strachan, Conference Secretary, in conversation before the opening session on Thursday



Outside the clubhouse at Ganton. (*Left to right*) Mr D. C. Stuart Downs, F.C.A., chairman of the Golf Subcommittee; Mr D. V. House, F.C.A., Vice-President of the Institute; Mr C. W. Boyce, C.B.E., F.C.A., a Past President of the Institute; Mr W. A. J. Parkinson, F.C.A., and Mr K. G. Lyon, F.C.A.

pension arrangements for high executives who can no longer save for their old age – on all of which the accountant's advice is sought.

Death Duties

Then there is the case of the prosperous director-controlled private company. Even if it is blessed with ample liquid resources it is virtually impossible for the proprietors to enjoy its earning power to the full and build up savings outside, owing to the incidence of sur-tax; while, if the profits are left in to finance the growth of the business, a death-duty nightmare overshadows its future. Hence the proprietors turn to their accountants to know what to do for the best and, more often than not, the solution involves the sale of the shares to one of the big groups whose growing organization and capital problems in turn call for constant professional advice from their accountants.

I could go on with examples of this kind *ad nauseam* but I have said enough, I am sure, to make the point and must return to the more general theme.

Whatever the problem on which the advice of the professional accountant is sought, I am sure that it is not only his professional skill and experience that leads to his employment but the fact that, by training and habit, he can be relied upon to give disinterested advice. That is one of the reasons why, in my view, no accountant who is acting in a professional capacity in any negotiations or in any other fiduciary role should ever have any personal capital stake in their outcome.

The Accountant as Negotiator

The mention of negotiations reminds me that the role of negotiator is amongst the most important and useful of the special functions which fall to the lot of the experienced professional accountant. When a delicate stage is reached in negotiations between, say, an industry and the Government or between the heads of important businesses, it is often the case that differences are bridged and deadlocks are resolved by the wisdom and diplomacy of members of our profession acting in an advisory capacity.

The late Lord Plender, in a public speech nearly a quarter of a century ago, after referring to the great development of the joint-stock principle, embracing large and small companies, continued:

"The chartered accountant has, in his experience and in the assistance he can give, developed also. Few commercial and industrial concerns are content merely for him to audit the books and report upon a balance sheet; they seek his advice in innumerable instances in devising costing methods; in income-tax problems and claims for return of duty paid; reorganizing administrative departments; in advising on amalgamations and readjustments of capital, and in many other ways."

What Lord Plender refrained from saying was that he was among the many distinguished pioneers of the profession who had laid the foundations on which its prestige with the public and with Government has

developed so remarkably. By their integrity, their ability and their wisdom and by the high standards these pioneers set, not only in work and training but also in the realm of professional ethics, the chartered accountant of today enjoys a unique standing in the world of business and in a multitude of ways performs a service of the utmost usefulness to industry and Government – a service which is indispensable in the times in which we live.

But, lest we get an exaggerated idea of our importance, let us remember the modesty – the utter modesty – of the founder members of our Institute, who chose as their motto *Recte Numerare*. Let us remember, too, that though the range and usefulness of our work has broadened to an astonishing extent since 1880, the process of development must go on or we shall stagnate.

Retrospect and Prospect

Looking back, if I may, it seems that a century ago the main business of a public accountant was to give a decent burial to the unsuccessful business; later, his main business was that of auditor – the watch-dog of the shareholders. As such, he gained great experience of the inner working, organization and problems of literally every sort of business. This wide and diverse experience and insight made him a useful person to consult about many a problem with a financial aspect, and directors, so far from regarding auditors as merely watchdogs, turned increasingly to them for guidance and advice on financial matters. Thus the accountant's functions have gradually but notably widened and become increasingly constructive and more and more persons trained as chartered accountants have been recruited as whole-time executives in industry, quite apart from those who have been invited to join boards of directors.

At the risk of over-simplification one may say, in broad outline and, in turn, that the dominant function of public accountants has emerged from accountancy for creditors to accountancy for shareholders and proprietors; and that in more recent times the trend has been, and still is, I venture to think, towards accounting for management.

The earlier functions, of course, continue to a greater or lesser extent but management more and more is looking to the chartered accountant for guidance in organization, budgeting, and the prompt and appropriate adjustment of selling prices in the world of competition and fluctuating costs which is rapidly replacing the rigid and artificial wartime economy which has been our lot since 1939.

Qualifications and Qualities

What are the qualifications and qualities that we need successfully to fulfil this most recent development in our function? I venture to think that, fundamentally, they are, as always:

- (1) the thorough practical and theoretical training that the embryo chartered accountant

- has to undergo during his apprenticeship;
- (2) the high standard required in the wide range of subjects covered by the Institute's examinations, the passing of which is a hall-mark of mastery of the principles underlying the whole range of subjects to which we refer collectively as accountancy;
 - (3) the trained, disciplined, orderly and keenly analytical mind which is the outcome of hard practical work and wide theoretical study;
 - (4) the disinterested, unbiased and unprejudiced approach bred of professional training and experience;
 - (5) the high ethical standards which have been established by the Institute over many years.

It is on these sound foundations that the role of the chartered accountant as a financial adviser has developed so notably.

Management Accounting

Accountancy for management involves a natural projection of basic principles with particular emphasis on constructive rather than critical thought. In effect, we have to adapt ourselves to giving running commentaries and budgetary forecasts in addition to reports on the results of a year that is dead and gone.

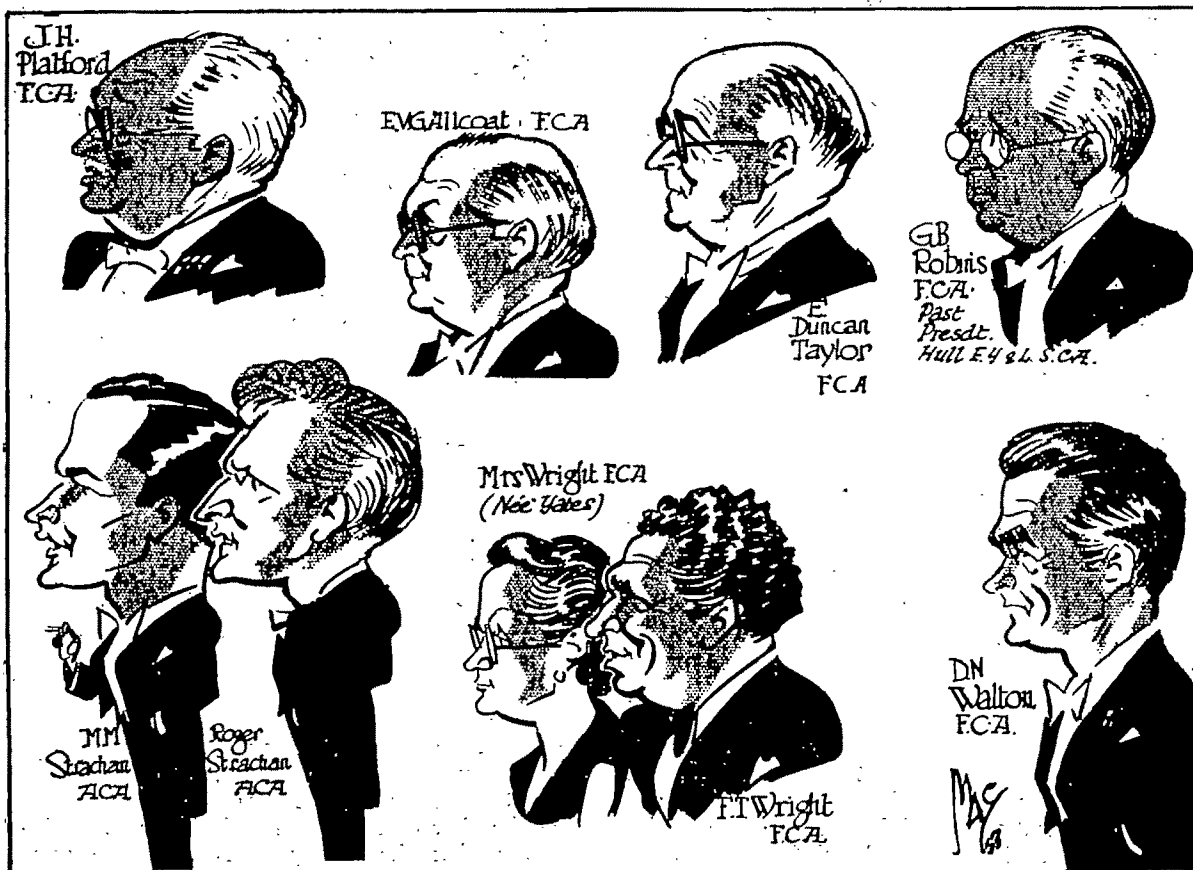
For all these reasons there is no short-cut to competence in management accounting - mastery of basic principles and theory, aptitude for the study

and analysis of the special problems of individual businesses developed in the course of broad practical experience - these are the foundations on which we can best discharge our duty to industry in this regard, as was the case with the earlier developments such as taxation and general financial advice.

Conclusion

Finally, as we look back over the great developments which have taken place in the seventy-three years which have elapsed since the formation of The Institute of Chartered Accountants, let us be grateful to the distinguished men who were the leaders of our Institute in years gone by and who set the highest of standards and laid on sure foundations the prestige which the chartered accountant enjoys today; let us be thankful too that, in the changing times in which we live and work, we have with us many experienced and distinguished leaders to guide us in the developments which face the profession.

In this paper I have travelled over a wide ground some of which is, perhaps, a little remote from my immediate subject. I hope, however, that whatever its shortcomings may be, it will stimulate constructive thought and discussion on the wider responsibilities which now fall to the lot of members of our profession whether they are in practice or in industry, and so be of some assistance in the evolutionary process which is the foundation of progress.



CONTENTS

INTRODUCTION	Page
BACKGROUND TO DEVELOPMENT OF THE PROFESSION	430
FORMATION OF THE INSTITUTE	430
THE FAMILY BUSINESS	431
FIRST WORLD WAR - TAXATION AND CONTROLS	431
MEMBERSHIP OF THE INSTITUTE	432
MEMBERS IN INDUSTRY AND COMMERCE	432
DIRECTORSHIPS	432
A WIDE FIELD OF ACTIVITY	432
THE BURDEN OF TAXATION	471
ADDITIONAL CAPITAL REQUIREMENTS	471
PENSION SCHEMES	471
DEATH DUTIES	473
THE ACCOUNTANT AS NEGOTIATOR	473
RETROSPECT AND PROSPECT	473
QUALIFICATIONS AND QUALITIES	473
MANAGEMENT ACCOUNTING	474
CONCLUSION	474

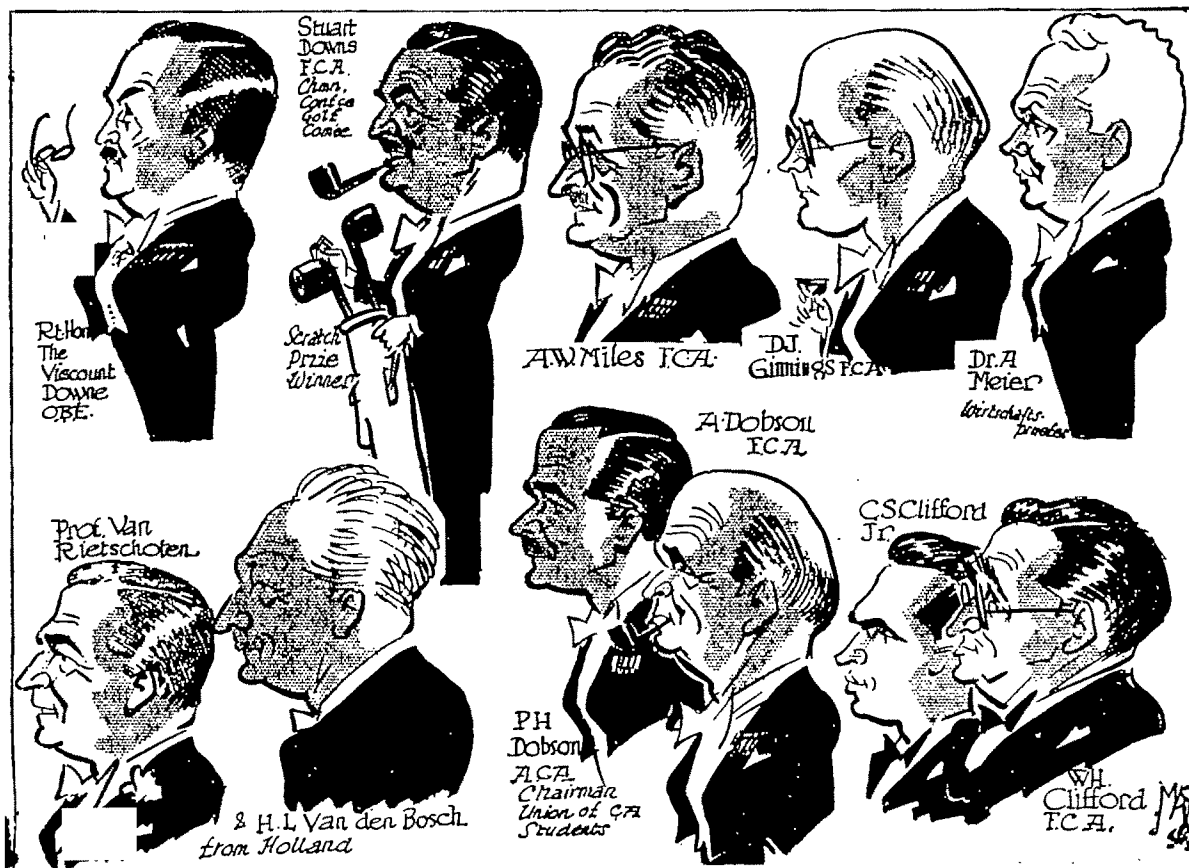
DISCUSSION

The discussion was opened by Mr W. L. Barrows, F.C.A., a member of the Council of the Institute, who referred to the wide experience of Mr Moore who, after fifteen years as a practitioner in a leading firm, was now chairman of some of the leading industrial companies in the country and a director of many others. He continued:

Mr Moore has delivered to us today a most inspiring, interesting and amusing address around his paper. I find it difficult to make constructive

comments on the paper because I suppose that as the profession has developed, the accountant, in whatever position he may be, is to a lesser or greater degree a financial adviser - he is doing it all the time. For the vast majority of chartered accountants, the family private company or business forms the bulk of the work and few of us have experience of many public companies. In the family business, however, the accountant is expected to be the guide, philosopher and friend. He is the financial adviser, and very much more. He is the confidential consultant on all sorts of problems, on questions of remuneration, personnel and much else, and must be prepared to give quick decisions.

Nearly all of us here who are in practice must have come upon the problem of what to do when clients, for whom one has acted as auditor for many years, press one to go on the board. If it is a public company, the way is clear and his firm must resign as auditors; if a private company, I realize that another partner can act, but I think it undesirable for a directorship and the audit to be held in one firm unless all the shares are held round the board table. From time to time there must be a conflict of interests, and I think it is much better to resign and have a completely independent auditor. I shall be criticized for expressing that view. There is one consolation, however. I believe it is in order for a chartered accountant who is a director to share in profits.



I was particularly impressed by Mr Moore's advice to younger men in connection with directorships, when he said that they should be on their guard against taking too narrow and academic a view. As accountants, young and old, we must realize our limitations particularly in regard to technical matters and be guided by the technician wherever necessary. We must be humble. One does come across the criticism which I fear is fully merited in many cases, that we take too narrow a view. Those who are successful in the role of adviser are those who have been able to broaden their outlook and approach problems from a human angle.

Mr Moore states towards the middle of his paper that no accountant who is acting in a professional capacity in any negotiations or in any other fiduciary role, should ever have any personal capital stake in their outcome. When approached to be a director it is often necessary to take up qualification shares, and in my opinion, if the accountant concerned is in private practice, it is desirable for the whole of his income as a director to go into the firm, and the firm in turn should take up the qualification shares on behalf of the partner concerned.

I would like to reinforce the desirability of all members keeping in close touch with the Institute as their mother society, and thus assisting the Council, and the district societies and taxation and research committees to keep in close contact with the needs of the members and give real effective service.

I was pleased that under the heading of 'Qualifications and qualities', Mr Moore puts first the thorough practical and theoretical training that the embryo chartered accountant has to undergo during his apprenticeship. I believe that during his period of articles a young man is in a wonderfully privileged position and able to see the functioning and running

of businesses of all types and sizes. It is a splendid background, and looking back, I am grateful to my principals for the opportunity which they gave to me of obtaining almost by instinct some understanding of business problems.

As we expected, Mr Moore has given us a most interesting address and much to think about.



WEEKLY NOTES

New Member of the Council of the Institute

Readers will have noted with interest, in our report last week of the proceedings of the October meeting of the Council of The Institute of Chartered Accountants in England and Wales, the election to the Council of Mr Robert McNeil, F.C.A., A.S.A.A., of Hove.



Mr Robert McNeil, F.C.A.

A partner in the firm of Nevill, Hovey, Gardner & Co, Chartered Accountants, of London and Brighton, Mr McNeil joined his firm in 1925 as

managing clerk, having in November 1924 passed the Final examination of The Society of Incorporated Accountants and Auditors, with honours. He was articled in 1929, and in 1934 he gained Third Place in the Institute's Final examination, winning also the 'Frederick Whinney' prize. He was admitted an Associate of the Institute, and a partner in his firm, in 1935, and elected to Fellowship in 1945.

Mr McNeil served on the former Taxation and Financial Relations Committee of the Institute in 1942-44, and was first assistant secretary, then secretary of the South Eastern Society of Chartered Accountants from 1937 to 1945. He was president of the South Eastern Society in 1947-48, in which year the Institute's first post-war autumnal meeting was held at Brighton.

Balancing Charges on Nationalized Lorries

The Finance Act, 1952, by Section 24 and the Sixth Schedule, greatly extended the scope of balancing charges on plant and machinery, but those provisions

do not apply to years before 1952-53. Meanwhile, the construction of Section 17 of the Income Tax Act, 1945, which deals with the subject for earlier years, continues to offer difficulties. The most recent point to be decided by the Courts is whether the compensation moneys, received for lorries which have been taken over by the Road Haulage Executive, can give rise to a balancing charge. Mr Justice Danckwerts has dismissed an appeal by Bramford's Road Transport Ltd, of Leicester, against a balancing charge on such compensation moneys paid in respect of the taking over of the company's undertaking in May 1949. His Lordship said that there had not been a sale of the undertaking itself so as to bring about a discontinuance for tax purposes. The trade had continued after the taking over and, accordingly, the taking over of the lorries themselves had occurred before a permanent discontinuance of the trade. The balancing charge had been properly made. (*The Times*, October 17th, 1953.)

Political Propaganda Not a Deductible Expense

The decision of the Court of Appeal in *Morgan v. Tate & Lyle Ltd* ([1953] 32 A.T.C. 152), that the costs of the 'Mr Cube' anti-nationalization campaign were a deductible expense, was a great victory for the taxpayer. However, the fact that the scope of the decision is extremely narrow has been emphasized in *Boarland v. Kramat Pulai Ltd* (*The Times*, October 16th, 1953), where the decision was relied on in vain. In that case a tin-mining company had spent £2,550 in printing and publishing the 'supplementary remarks' of its chairman - remarks made by him at the company's annual meeting. The speech was directed at the Socialist Government, which was then in power, and which the chairman accused of having an adverse effect on the tin-mining industry. In an appeal by the company against an assessment on its profit, the General Commissioners for the City of London held that the expense was deductible as having been incurred wholly and exclusively for the company's trade. The Crown appealed. Mr Justice Danckwerts said it was a question of law whether the pamphlet was wholly and exclusively for advancing the company's trade. It contained throughout an attack on the policy of the then Government; the effect of that policy on the tin industry was mentioned only incidentally. One had only to peruse it to see that the advancement of the company's trade, if it was an object of the pamphlet, was not the sole object. As the Appeal Commissioners were wrong in law, it was unnecessary to consider whether there was any evidence on which they could have come to the conclusion which they had expressed. The Crown's appeal was allowed.

Between Two Budgets

This is the time of the year when emphasis shifts from the last Budget to the next. The transition was

marked by the banquet which the Lord Mayor gave this month to the bankers and merchants of the City of London. Mr Butler, who spoke, was moderately complacent about the last Budget and as enigmatical about the next as only a Chancellor of the Exchequer can be - speaking tantalizingly of possible delights and shocks. Mr C. F. Cobbold, the Governor of the Bank of England, who followed, was at pains to stress the danger to our industries and exports which the present level of taxation represented. More savings should be left in industry to provide for replacements of capital assets. Both speakers agreed on the need to develop the Commonwealth overseas. Sir John Braithwaite, the chairman of the Stock Exchange, said he looked forward to a further reduction in the Bank rate; and for a Budget next April which would take the country some modest step along the road to that lower taxation which was the key that would unlock so many problems and restore the country's credit in the markets of the world. Although the outlook is better than it has been, it can hardly be said that all the signals are set for further progress in tax reduction. What, for example, will fill the gap caused by last year's reduction in profits tax when the excess profits levy has been decently buried?

The Motor Show

The International Motor Show, which opened this week at Earl's Court, comes at a critical time for the motor-car industry. Early this year the industry suffered quite a serious setback but during the summer months and in the autumn, it has shown remarkable resilience. The show takes place this year against a background of booming production. Not all manufacturers are of the opinion that this happy state of affairs is going to continue indefinitely. Some are of the opinion that the post-war back-log of demand will be made good later this autumn and that when this occurs the industry will have a stern fight to maintain recent levels of output.

This attitude of mind possibly finds expression in the price reducing policy and less expensive models which were a feature of pre-show publicity this year. The fight in the small-car market has been given added intensity this week by the announcement from Ford, of the new 'Popular', which claims to be the world's cheapest car. This has occurred after both Standard and Austin have staked a claim in recent weeks for a new small car at a competitive price and Ford had themselves already announced one new inexpensive model. Not all of the Big Five are engaged in this particular aspect of the struggle. Rootes have this week announced their intention of keeping out of the small car struggle and have signalized their confidence in the future by publishing a £5 million expansion plan.

All these developments will be gratifying to the public's ear. At this year's Motor Show it should be possible to visit the stands and get quick delivery if one is inclined to purchase.

FINANCE AND COMMERCE

Reassembly of Parliament and the consequent re-emphasis of current world political problems has brought renewed uncertainty to stock-markets. At the same time, the first of the steel share operations, with its gilt-edged market implications, has led to a degree of stagnation in investment business. It seems likely that these two factors – political problems and the steel share issue – will dominate stock-markets for the time being to the exclusion of more helpful industrial and trade matters upon which the market could base a continued advance.

Res Ipse

Crown Zellerbach Corporation, whose quarterly report we reproduce, is rated as the second largest paper company in the United States. It sees paper through from its own timber lands to its own pulp mills, on to its own paper mills, and thence into wholesale distribution of the finished product through its merchandising subsidiary. Its products range from facial tissue to multiwall paper bags, newsprint, etc.

The reprint speaks for itself. It also shows the mental approach in America to prompt and frequent company reporting as against the annual figures, often four, five and six months or more old, as presented in this country.

One point which might be made concerning Crown Zellerbach is that the company has quite recently obtained a quotation for its capital on the London Stock Exchange, and since its acquisition of the Canadian Western Lumber Company by a share exchange operation, it has a number of United Kingdom shareholders. The company's example in providing its shareholders with quarterly figures and, what is more, with figures right the way down from sales to net income on the common stock may, therefore, nudge some companies into action over here.

American Influence

To show that the provision of interim figures is gradually becoming more widely adopted here, we also reprint below an extract from the half-yearly statement by Monsanto Chemicals Ltd. With these figures there was a fully explanatory statement on the company's position. It explained that production costs have been lowered despite higher wages and raw material prices, while sales tonnages have been increased and inventories reduced. Good demand for most chemical products should continue for the remainder of this year but the company remains subject to increasingly keen competition both at home and abroad.

Stockholders in the company will undoubtedly welcome this interim report. We hope it can be regarded as a first step towards the presentation of quarterly figures.

While on the subject of the American influence in this matter of interim statements, we must point out that 66½ per cent of the Monsanto Chemicals ordinary capital of £2,700,000 is held by the Monsanto Chemical Company of St Louis, and the chairman of the British company, Mr Edward A. O'Neal, Jr., and the managing director, Mr P. A. Singleton, are both from the United States.

MONSANTO CHEMICALS LIMITED

	Half-year to June 30th, 1953	Half-year to June 30th, 1952	Year 1952
Net Sales	£5,208,182	£5,175,802	£9,954,289
Net Income before taxes ..	£488,888	£608,183	£780,611
Less Estimated taxes ..	265,221	381,558	486,899
Net Income after estimated taxes	£223,665	£226,625	£293,711

These figures relate to this company only and do not include earnings of subsidiary and associated companies.

Recognized Procedure

The making of provision for dividends recommended is now recognized accounting procedure. It is now so old that a generation has grown nearly to middle age which has no experience of the balance sheet that had to be viewed in the light of the appropriations shown in the directors' report.

The correspondence columns of *The Accountant* of former days show the strength of the resistance against what was then felt by many to be revolutionary gone mad. Among the objections raised was the possibility that the recommended dividend for which the accounts showed provision might not finally be approved by shareholders at the subsequent meeting.

So far, we cannot remember one case where shareholders have said 'no' to a dividend, but there has at last arisen an instance of non-payment and of a writing-back of the amount provided to profit and loss account. It occurs in the accounts to March 28th, 1953, of Cellactite & British Uralite Ltd.

Writing-back

Mr George V. Parker, chairman of the Cellactite company, notes in his statement with the 1953 accounts the circumstances of last year in regard to the dividend. Among other things, there was a difficulty of finance due to heavier stocks at the works and this position, he points out, had a great bearing on the question of payment of a dividend which, subject to shareholders' confirmation, it was proposed to pay. After full consideration, it was resolved that a dividend of 12½ per cent less income-tax be paid at a date to be decided upon by the board to shareholders registered at the date of payment. He reminds shareholders that under the company's articles, the company in general meeting sanctions the dividend but the directors declare it. From the accounts now

adds, it will be appreciated why they have been unable to do so.

It has been necessary of course to remove the amount of £9,844 provided, from under the current liabilities head and write it back to profit and loss account, which, counsel advises, should be done as special business at the meeting by ordinary resolution. This recounts the dividend resolution at the 1952 meeting, the fact that the directors have not and do not intend to declare any such dividend and concludes: 'Now the sanction given by the said resolution be and the same is hereby withdrawn and the said resolution be and the same is hereby rescinded'.

Stock Records

The auditors of Fleetwood Paints Ltd are able to state this year that 'the stock record system installed during the year (to December 31st, 1952) has operated reasonably successfully'. It is still not quite satisfactory, however, and 'requires some modification in order fully to satisfy our requirements in this connection'.

Last year, it was necessary for the auditors to report that 'the stock records were insufficient in detail to enable us to identify, or to express an opinion on the value of the closing stock-in-trade'.

Stock-keeping, as accountants know full well, is one of the sharpest rocks on which a business can fall. Stock can become stale, outmoded and derelict, and it is an absolute essential for those who carry the day-to-day responsibility for running a business to know where they stand in regard to the stock-in-trade. And for that, reliable stock records are necessary.

For the auditor as well, stock records are an essential. He can but see that a reliable system is in operation, apply such checks as the circumstances require and assure himself that the directors should know where they stand when they present the stock certificate.

In the case of this company, in the words of its chairman, 'the revaluation of stock on a realistic basis has called for a writing-down of some £26,000, of which, £10,000 was provided for in the accounts of 1951'. Stock-in-trade and work in progress now stand at £30,999 against £62,350.

The company has been in misfortune since it was made public in 1947. No dividend has been paid and capital plus reserves of £90,725 is reduced by a debit balance on profit and loss account of £51,333.

Money Market

Applications for the £230 million of Treasury bills offered at the Bank of England on October 16th, totalled £367,705,000. The market raised the bid to £99 9s 6d against £99 9s 4d at the previous tender and obtained 51 per cent of requirements compared with 49 per cent the previous week. The average discount rate was reduced to £2 1s 11.57d per cent. This week's offer is for £240 million and equals corresponding maturities.

CROWN ZELLERBACH CORPORATION

HIGHLIGHTS

Three months ended July 31st	1953	1952
Net Sales	\$70,281,778	\$59,107,967
Income before taxes on income	13,271,871	11,743,046
United States and Canadian taxes on income	7,101,000	6,563,000
Net income	6,106,000	5,148,564
Dividends declared	3,430,208	2,863,841
Earnings retained in the business	2,675,792	2,284,723
Additions and improvements to properties	3,056,045	2,735,868
Per share of common stock, based on average number of shares outstanding during period:		
Income before taxes on income	2.03	1.96
Net income	.90	.82
Dividends paid	.45	.37
Retained in the business	.45	.45
Production of paper and paper board - tons	250,138	215,487

CROWN ZELLERBACH CORPORATION and its Subsidiaries including Canadian Subsidiaries Comparative Statement of Consolidated Income

(Subject to annual audit and year-end adjustments)

Three months ended July 31st	1953*	1952
Sales, net of returns, discounts, allowances, outward freight, etc.	\$70,281,778	\$59,107,967
Other operating income, net	238,249	152,752
	<u>70,520,027</u>	<u>59,260,719</u>
Cost of goods sold, exclusive of depreciation, amortisation and depletion	48,788,852	40,823,975
Operating expenses	5,953,897	5,021,527
Depreciation and amortisation	2,323,360	1,675,153
Depletion	312,974	193,425
	<u>57,379,083</u>	<u>47,714,080</u>
Operating income, net	<u>13,140,944</u>	<u>11,546,639</u>
Other income:		
Dividends from Fibreboard Products Inc.	211,088**	211,088
Miscellaneous income, net	440,738	415,970
	<u>651,826</u>	<u>627,058</u>
Other expenses:		
Interest on long-term debt	349,310	268,750
Retirement income plan, past service benefits	171,589	161,901
	<u>520,899</u>	<u>430,651</u>
Other income, net	<u>130,927</u>	<u>196,407</u>
Income, before taxes on income	<u>13,271,871</u>	<u>11,743,046</u>
United States and Canadian taxes on income:		
Income taxes	6,576,000	5,824,000
Excess profits tax	525,000	739,000
Total taxes on income	<u>7,101,000</u>	<u>6,563,000</u>
Income, after taxes on income	<u>6,170,871</u>	<u>5,180,046</u>
Minority stockholders' equity in earnings	64,871	31,482
Net income for the period	<u>\$6,106,000</u>	<u>\$5,148,564</u>
Net income per share of common stock based on average number of shares outstanding during period (after dividends on preferred stock)	<u>\$.90</u>	<u>\$.83</u>

* Figures for three months ended July 31st, 1953, include results of operations of Canadian Western Lumber Co Ltd, and Elk Falls Co Ltd for July 1953, and of St Helens Pulp and Paper Company for June and July 1953.

** Pro rata of earnings for the three months in excess of dividends received was \$431,597, equal to 7 cents per share of Crown Zellerbach's common stock.

years were almost the same as the actual profits in respect of the practice, apart from the Danckwerts award.

If the doctor had been in practice for some years prior to 1950 his assessments would have been:

1949-50	..	..	..	Nil
1950-51	..	..	..	250
1951-52	..	..	..	1,000
1952-53	..	..	..	1,000
1953-54	..	..	..	250
				<u>£2,500</u>

The difficulty of convincing a doctor, who has received £2,500 under the Danckwerts award and who is already very perturbed that almost half of it should go to the Inland Revenue, that in point of fact he is going to be assessed on £3,500 can be appreciated.

Yours faithfully,
C.A.

Minor's Income and Child Allowance

SIR, - I shall be obliged if any of your readers can assist me on the following point:

In November 1946, a grandfather transferred certain shares to a trust for the benefit of his infant grand-daughter, the income being about £48 gross per annum. Under the settlement, the trustees are empowered to pay all the income to the child's father for her maintenance, but no *regular* payments have been made, the income being accumulated until a substantial sum of £50 or £60 was in hand, to meet school fees.

During the year to April 5th, 1949, the sum of £50 was paid to the father, which the Inspector of Taxes treated as a gross amount of £90 18s 2d, less tax at 9s 6d - £40 18s 2d, and repaid this tax to the trustees.

The Inspector now contends that the child's income for 1948-49 exceeded the maximum of £60 and therefore the father was not entitled to the child allowance for that year. The Inspector states that as the child's interest is *contingent only*, the matter is governed by Section 31, Trustee Act, 1925, which provides that the measure of the child's income in any year of assessment is the gross trust income actually released in that year by the trustees for the child's benefit.

The Inspector's attitude seems to me very unfair but he quotes the following cases in support of his ruling:

Drummond v. Collins ([1913] 6 T.C. 525).

C.I.R. v. Stanley (22 A.T.C. 242; 26 T.C. 12).

The Inspector states that these cases related to surtax only, but the principle is the same.

Acting for the father, I have lodged an appeal against the disallowance of the child allowance, and the hearing is to take place next month. I should much appreciate any advice on this matter which readers may offer.

Yours faithfully,
F. H. CROUCH.

London, W.I.

Finance Act, 1953, Section 20: Subvention Payments

SIR, - While I have benefited greatly from reading your series of articles I am still not clear about payments to which Section 169 or 170 applies. For example, I wonder if this is a correct computation of a deficit for 1953-54:

Loss for year ended March 31st, 1954, as adjusted for income-tax, before adding capital allowances	£	2,000
Capital allowances, 1953-54	..	10,000
Loan interest paid in year ended March 31st, 1954	..	4,500
		<u>£16,500</u>
Less Schedule A net annual value, 1953-54	..	1,500
		<u>£15,000</u>

If there was no Schedule D assessment for 1953-54 the Section 170 assessment for that year will be £3,000 (£4,500 - £1,500). Should I have included £3,000 in my computation in place of the £4,500?

Yours faithfully,
BEDRULE II.

[Our correspondent's computation of deficit under Section 20 (5), appears to be correct. It is the payments to which Section 169 or Section 170 of the Income Tax Act, 1952, applies which have to be deducted, not the amount of any Section 170 assessment. Otherwise the income of the company would be taken into account twice. - Editor.]

'Replacement Profit is False'

SIR, - Reading a letter in the October 10th issue, under the above heading, by Mr Briscoe, I would beg to point out that Lord Keynes died in April, 1946, which was before inflation was noticeable in this country and before Sir Stafford Cripps devalued the pound; so that it would have been impossible for Lord Keynes to have made any comment whatever regarding inflation in this country.

Yours truly,
JOHN HALL.

Mayford, Nr. Woking.

SIR, - In your issue of October 10th, there was a letter from Mr H. A. Briscoe which, because it dealt with an interesting subject, I read. Mr Briscoe's argument and views are not very clear though it appears that he has proved something to his own satisfaction.

This 'proof' might conceivably carry some weight had Mr Briscoe not made explicit statements in his letter for which there can be no foundation in fact and which appear to attribute motives to a substantial part of the profession, if not indeed the greater part, for which he can have no evidence whatever. The second page of his letter as printed in your journal consisted entirely of declamatory nonsense and I can only regret that a journal of your standing saw fit to print it.

It will be known to you and should be known to Mr Briscoe that the three recognized bodies of accountants in this country have admitted that profits calculated on a historical cost basis are in some respects deficient, though not all these bodies have been equally rapid in advocating alternatives. The deficiencies are known and fully recognized and were it possible to follow Mr Briscoe's arguments I cannot feel that they would in any way affect this conclusion.

It should be clear to Mr Briscoe that nobody is attempting to impose an economic system 'like the Douglas Credit Scheme' on our community, but many members of the profession are interested in producing figures which have some meaning and have agreed that historical 'profit' in present circumstances has none. Mr Briscoe is entitled to his concept of 'profit', whatever it may be, but he is not entitled to accuse his fellow-accountants of 'conspiracy', 'falsifying profit', 'chicanery', and 'dishonesty' if they have an alternative concept. The best excuse that can be found for such expressions is that Mr Briscoe has thoroughly lost his temper. Yours faithfully,
London, SE24. E. H. DAVISON.

E.P.T. Post-war Refunds: Capital or Revenue?

SIR, - In the concluding article on the Finance Act, 1953, it is stated, on page 427 of your issue of October 17th, 1953, in reference to E.P.T. post-war refunds, that these refunds are now available for distribution to shareholders and proprietors.

Would such a refund be a distribution of capital or revenue, and, if the latter, would it be obligatory to deduct income-tax when making it?

Yours faithfully,
 NOMAD.

[Section 43 of the Finance (No. 2) Act, 1945, expressly imposes income-tax on these refunds and enacts that they shall be deemed to be income for all the purposes of the Income Tax Acts. They accordingly fall within Section 184 (2) of the Income Tax Act, 1952, and therefore, when they are applied in payment of dividend Section 185 applies, i.e. broadly speaking the dividend is grossed up for income-tax purposes unless it is a fixed preference dividend. If no tax is deducted from a preference dividend, that too is grossed up (Section 186). - Editor.]

Hiring Out Caravans: Taxation

SIR, - In recent years there has been an enormous increase in taking holidays in hire caravans. Only a small part of this business, however, is in the hands of traders organized specially for it, the majority of caravans on offer belonging to small investors, i.e. private owners who have bought two or three caravans to supplement their incomes, together with people who find it possible to do some caravanning themselves by hiring out their caravan for periods when they do not need it.

There is a good deal of uncertainty regarding the taxation aspect of this casual and small-scale hiring

out and as to what charges may properly be set against the gross receipts. I should be very grateful, therefore, for any information which your readers, who may have experience in the matter, would be kind enough to give.

Yours faithfully,
 W. M. WHITEMAN,
London, WC1. Editor, *The Caravan*

'Estates of Deceased Persons: Published Particulars'

SIR, - May I add to my article on the above subject which was published in your issue of September 26th. The certificate of estate duty paid which appears on grants of probate and letters of administration is now so worded as to show the gross estate and the net estate without distinguishing the realty from the personalty.

Yours faithfully,
London, WC2. PETER WHITWORTH.

Civil Engineering Plant

SIR, - I was a little puzzled by your correspondent's query (October 3rd issue) as surely, in a case such as his (i.e. where plant is used up over a small number of years), the prevailing income-tax capital allowances are both adequate and fair. If the plant is purchased, used and resold in, say, three years the full cost to the taxpayer is allowed in the corresponding assessments. Furthermore, when initial allowances can be claimed it is probable that the taxpayer will be in a better position than if your correspondent's suggestion were allowed.

Example

Plant purchased for £2,400 in November 1951, sold for £300 in September 1953. Accounts made up to December 31st. Annual allowance 10 per cent.

		Standard Method	Suggested alternative
		£	£
Cost	..	2,400	2,400
1952-53:		£	
Initial allowance ..	960		
Annual allowance ..	240		
One-quarter	60		
		1,260	700
		£1,140	£1,700
1953-54:		£	£
Annual allowance ..	114		
One-quarter	28		
		142	700
		£998	£1,000
1954-55:		£	£
Sold for	300		300
Balance allowance ..		£698	£700

It is generally agreed that, in a plant with a long life, changed infrequently (at ever-rising cost) which gives rise to dissatisfaction with the present capital allowance system.

Yours faithfully,
 HILBY.

SELECT COMMITTEE ON NATIONALIZED INDUSTRIES

THE INSTITUTE'S MEMORANDUM

Professional Accountants and Undertakings whose accounts are required by Statute to be laid before Parliament

We reproduce below the full text of the memorandum submitted to the Select Committee on Nationalized Industries by The Institute of Chartered Accountants in England and Wales mentioned in the report in our last issue, of the proceedings at the October meeting of the Council. The report of the Select Committee was commented upon in a leading article in our issue of August 22nd last.

(1) This memorandum is written on the basis that Parliament wishes to exercise a greater measure of supervision over the nationalized undertakings than is made possible by occasional debates, the annual report of the professional auditors and the periodical inquiries of the Public Accounts Committee. The memorandum does not seek to cover the whole field, which would necessarily include not only finance and administration but also technical problems, research and public and labour relations. It does however suggest ways in which the auditor and the professional accountant can be of assistance to Parliament.

Periodical Reviews of the Nationalized Undertakings

(2) It has from time to time been suggested both in Parliament and in the Press that every nationalized industry should be the subject of periodical review by or on behalf of Parliament every few years. If such reviews take place, it is assumed that a committee of persons will be appointed which will include persons skilled in the various subjects which must come under scrutiny. Presumably, for example, if a review of the coal industry is embarked on, the committee would include experts in coal-mining, finance, administration, marketing, labour relations and so on. The professional accountant is well fitted to sit on or assist such committees by reason not only of his particular knowledge of finance and financial administration but also on account of his training and skill in investigation work.

(3) Alternatively the committee referred to in paragraph 2 may wish to have selected sections of the undertaking probed and examined in regard to particular aspects of their finance and administration. Apart from the periodical review, the Public Accounts Committee or other body which may be asked by Parliament to concern itself generally with the supervision of nationalized undertakings may feel as a result of its own inquiries that an investigation on these lines for a specific purpose should be made as an interim measure, without waiting for the more exhaustive periodical review of the whole undertaking which might not be due for some years. The professional accountant is peculiarly well suited to do this type of work.

The Annual Audit

(4) The nationalized undertakings have professional auditors who report on the annual accounts. The primary object of such an audit is to enable the auditor to report whether in his opinion the accounts show a true and fair view. Before an auditor can report in this form he makes a great many inquiries over a

wide field with a view to forming an opinion, *inter alia*, on the following matters:

- (a) Whether the undertaking has kept books which record the transactions properly.
 - (b) Whether a proper system of internal financial control and (where appropriate) internal audit is in operation.
 - (c) Whether all the income has been properly received and accounted for.
 - (d) Whether expenditure incurred has been properly authorized and has been correctly apportioned between capital and revenue.
 - (e) Whether all payments and benefits to members of the Board of the undertaking have been properly made or received.
 - (f) Whether provision has been made for all known liabilities and contingencies.
 - (g) Whether they are satisfied as to the existence of the fixed assets and the basis on which they are stated in the accounts.
 - (h) Whether the amounts of the current assets, comprising usually stocks, work in progress, debtors and investments, are fairly stated.
 - (i) Whether adequate provision has been made for depreciation of fixed assets; and generally,
 - (j) Whether the balance sheet is true and fair and whether the profit or loss for the year has been fairly stated.
- (5) The annual audit is thus in itself a very great measure of protection and should not be interfered with. The procedure and technique have been evolved over a very long period of years and are well understood in the profession, by informed members of the public and by the executive staffs of the nationalized undertakings. It is, however, felt that the wide extent of an auditor's normal inquiries, as set out in paragraph 4 above, culminating in a short and simple report, is not always fully understood or appreciated by the public at large.

Extension of the Auditor's Duties

(6) Notwithstanding the safeguards which would be provided by the periodical review referred to in paragraph 2 and are provided by the annual audit, it is understood that there is a feeling in both Houses of Parliament that something more is required and that Members of both Houses desire to have their attention drawn to matters on which they consider they ought to be informed. The best analogy so far available is the function which is at present exercised by the Comptroller and Auditor-General in relation to expenditure by Government departments.

(7) The following procedure might be followed to meet this desire:

- (a) The annual audit should continue and should culminate as at present in the normal short form of audit report.
- (b) In addition the auditor should submit a supplementary report on any matters which come within the suggested terms of reference set out in paragraph 8.

Where the different sections of a nationalized undertaking are audited by different firms of auditors (as for example the auditors to the underlying units of the British Transport Commission), this additional responsibility should be extended to each firm for the particular section of the undertaking which is audited by them. Appropriate arrangements for the collation of the reports on the several constituent units would be necessary and the collated reports should be made available to the auditors of the main undertaking.

(8) The terms of reference might be as follows:

'It shall be the duty of the auditor to submit, as soon as practicable after he has completed his normal audit report, a supplementary report upon any matter of a material or substantial character which may have arisen under the following headings even if already mentioned in the audit report:

- (a) If, in matters of finance, the undertaking has not complied with the directives issued to it by the Minister, or other higher authority, to whom it is responsible, or with the provisions of the Act which controls or governs its existence. This section of the report should include appropriate comments as to the manner in which the undertaking has discharged its statutory duty to ensure that, taking one year with another, its revenues shall be not less than its revenue outgoings, and as to the amount and source of the funds available to meet the prescribed rates of interest on advances, if any, from the Consolidated Fund and to repay those advances within the prescribed period.
- (b) If Government grants or subsidies have been given on the basis of estimates furnished by the undertaking and the subsequent results have differed materially from the estimates.
- (c) If the accounts have not been drawn up so as to show clearly and fairly the results of the operations of the undertaking and, where appropriate, the effect of subsidies thereon.
- (d) If, in the ordinary course of the audit, the auditor has formed the opinion that there is a *prima facie* case for further investigation into any of the following:
 - (i) Lack of proper administrative and financial control of revenue, expenditure (including purchasing procedures), assets and liabilities.
 - (ii) Substantial capital expenditure incurred which was intended to be productive but which had not proved productive or upon which an adequate return has not been received.
 - (iii) Expenditure incurred which is of an extravagant or wasteful nature judged by normal commercial practice and prudence.
 - (iv) Any other matters concerned with the financial administration of the undertaking which may be worthy of special comment.

'In making his supplementary report the auditor will not normally, in the first instance, be expected to make exhaustive investigation of the foregoing matters. Any detailed inquiry and report required from the auditor would be a matter for subsequent specific instructions.'

(9) Though the auditor is in most cases appointed by the Minister or other higher authority (e.g. by the Transport Commission for its executives or the Steel Corporation for its subsidiaries) it is suggested that in

the interest of good relationships between the auditor and the Board concerned (see paragraph 10 below), his supplementary report should be addressed to the Board but that a copy should be sent by the Board forthwith to the Minister or other higher authority to whom the Board is responsible. It should be produced by the Board of the undertaking as a matter of normal routine procedure when its accounts are under review by higher authority or Parliamentary committee. It would be a matter for consideration whether the report should be published as a matter of routine, or whether publication should be a matter for decision in each case by the Parliamentary committee concerned.

(10) There are certain limitations in the terms of reference quoted above which it is advisable to mention:

- (a) The auditor should only be required to report matters which, in relation to the undertaking, are material. It is important both from the point of view of the auditor and of the undertaking that a small-minded approach should be avoided.
- (b) The auditor cannot be expected to report on technical matters, for example whether it would be better to employ wood or metal sleepers for the railways. The field he would cover would essentially be that of finance and financial administration.
- (c) It is above all essential that the nationalized undertakings should not be given grounds for an impression that the auditor had become a professional 'snooper' whose task it was to search out the minor administrative delinquencies which occur in every business.
- (d) Attention is directed to the words in paragraph 8 (d) 'in the ordinary course of the audit' and the concluding sentence of that sub-paragraph. The auditor should not be expected to range over the whole field of the undertaking deliberately searching out weaknesses in administrative control or extravagant or wasteful expenditure. In the first place it would be quite impracticable to do so in the time available; secondly, the cost would be prohibitive; thirdly, it would offend against the principle stated in (c) above.
- (e) The auditor should not be expected to report whether in his view an officer is competent or incompetent. Unless this is made clear, the relations between the auditors and the undertakings would soon be impossible.
- (f) Provided that all the facts are clearly disclosed without bias in the annual report or accounts of the Corporation so that the matter is brought to the attention of the public, the auditor need not report it. The object of this is to prevent needless repetition and to avoid creating the impression that the auditor is standing in judgment over the activities of the undertaking.

The above observations are made to emphasize that the auditor's additional duties would have to be performed with common sense and restraint and to make it clear that the primary responsibility of the Board of the undertaking is not to be undermined.

Public Accounts Committee

(11) The view has been expressed that the Public Accounts Committee is handicapped by insufficient technical assistance to enable it to make appropriate

inquiry into the affairs of the nationalized undertakings which are brought before it for examination. So far as financial matters are concerned, the professional accountant might be of assistance to the Committee in this difficulty.

(12) A professional accountant other than the auditor or a partner of the auditor might be appointed for each of the nationalized undertakings by the Speaker of the House of Commons or other appropriate authority to assist the Public Accounts Committee if it required his services. His duties would be:

- (a) To examine the voluminous annual report and accounts which are published by the undertaking with which he is to be concerned.
- (b) To study the annual reports, including the supplementary reports, made by the auditors.
- (c) As a result of (a) and (b) to suggest to the Public Accounts Committee that it might wish to direct its inquiries into subjects which he would be able to indicate.

The accountant so appointed would not himself institute inquiries or investigations into the nationalized undertaking but he could recommend to the Committee that it should in appropriate cases, call for further information or details.

(13) If an independent accountant were appointed for each nationalized industry as suggested in paragraph 12, he would be peculiarly well fitted to assist or, if desired, to be a member of the Committee which makes the periodical review referred to in paragraph 2.

Conclusion

(14) It is suggested therefore that the professional accountant may be of assistance to Parliament in the following ways:

Paragraph

- (a) By participating in the periodical reviews of the nationalized industries which it may be decided to hold every few years .. 2
- (b) By making special *ad hoc* investigations into particular phases of the undertakings if called upon to do so by the Public Accounts Committee or other committee concerned .. 3
- (c) By an extension of the normal duties of an auditor on the basis of the terms of reference set out in paragraph .. 8
- (d) By assisting the Public Accounts Committee, if called upon to do so, as to the lines its inquiries might take .. 12

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND LONDON LOCAL COMMITTEE

Thirty-sixth Annual Dinner of the Association of Scottish Chartered Accountants in London

The Association of Scottish Chartered Accountants in London held their thirty-sixth annual dinner on Monday, October 19th, 1953, at *The Savoy Hotel*, London. About 290 members and guests attended, and were received on arrival by Mr Thomas Lister, M.A., C.A., Convenor of the London Local Committee, The Institute of Chartered Accountants of Scotland, and Chairman of the Association, who presided, and by Mr John L. Somerville, F.R.S.E., C.A., President of The Institute of Chartered Accountants of Scotland.

Among those present were:

The Right Honourable Sir Norman Brook, G.C.B.; Mr James Blakey, F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*); Mr C. Percy Barrowcliff, F.S.A.A. (*President, The Society of Incorporated Accountants and Auditors*); Sir Ian F. C. Bolton, Bart., O.B.E., D.L., J.P., C.A. (*Vice-President, The Institute of Chartered Accountants of Scotland*); Mr W. Guy Densem, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Mr Donald Geddes, B.A., LL.B.; Mr Harold G. Judd, C.B.E., J.P., C.A. (*Past Chairman of the Association*); The Rev. Dr R. F. V. Scott, D.D. (*Minister of St Columba's Church*); Mr J. Ivan Spens, O.B.E. (MLL.), C.A. (*Past Chairman of the Association*); Sir Reginald Wilson, B.COM., C.A.

The toast of 'The Institute of Chartered Accountants of Scotland' was proposed by the Rt Hon. Sir Norman Brook, G.C.B.:

'I have never found myself among quite so many chartered accountants before' said Sir Norman, 'and a sobering experience to face so many people who dabble with balance sheets and income-tax returns - all these things I

find so extremely complex and painful - I am glad that I am on the right side of the table and that I can ask the questions instead of answering them. (Laughter)...

The High Road to Leading Positions in Industry

He continued:

'It is doubtful whether more members of the Institute will continue to practice their profession as accountants, for this is now recognized as the high road to leading positions in industry, the low road is the civil service, and I can assure you that it takes very much longer.' (Laughter.)

'I believe that this graduation from one profession or one occupation to another could be beneficial to the life of our community. I myself am deeply conscious of the great debt that we owe to those men who gave great public service during the war - among these were members of your own Institute.

Sir Norman concluded by saying that it would be a pity if mingling of the different professions and the pooling of their different experiences could be achieved only in times of war. An interchange of profession and outlook, where feasible, would be of great benefit to the country's future, and, said Sir Norman, 'I should like to think that your profession and mine has made and will continue to make, contributions to this end.' (Applause.)

President of the Scottish Institute

Replying to the toast, Mr Somerville said that we in this country owe a very large debt to our civil service which, he was quite sure, had been able to contribute

a great deal to those members of the Institute who had come into contact with it.

We could look back some 100 years, said the President, and see what great steps had been achieved by science. Accountancy was rather like science, and it too had advanced rapidly, but as regards new techniques he sometimes wondered if it was not possible to simplify the arrangement of the work which the students had to undertake so that the knowledge they had to absorb might be learnt in a somewhat shorter time. If they were to absorb all that there was to know, they needed to learn it much more quickly than they do now.

Speaking of the Institute, Mr Somerville said that the London Association had been the first association where three different bodies were standing together. They had given a very good foundation for the formation of the Institute. The Institute was working most harmoniously.

'Some of you, I have heard,' said Mr Somerville, 'say you are going to change the rules - why don't you get on with it? A lot of rules might be amended.'

After an interval, the Chairman gave some details of the activities of the Scottish Chartered Accountants in London Golf Club, and amid applause, presented the *Past President's Challenge Cup* to Mr R. K. Graham,

B.A., (Cantab.) of Messrs Brown, Fleming & Murray. Three couples tied for the *Bogey Challenge Cup*, the result being decided on the score for the last 9 holes. The winning couple were Messrs A. Inglis and E. F. Milne, who received a replica each. The *Wood Cup* had been lost by the Scottish Chartered Accountants in London Golf Club to the English Chartered Accountants' Golfing Society, and the *Lady Mann Challenge Cup* had been won by Messrs Brown, Fleming & Murray.

London Discussion Group

Mr Lister then spoke of the London Discussion Group, which had been set up recently. This was encouraging and the group's committee had in mind particularly the members in commerce and industry who, he was hopeful, would be able to form a group or association of their own before long.

In conclusion, Mr Lister said that the standard of Scottish chartered accountants would be maintained only if a sufficiently high standard were set in the training of apprentices: this lay in the hands of practising members of the Institute.

The toast of 'Our Guests' was proposed by Sir Reginald Wilson, and Mr Donald Geddes replied.

Music was provided during the evening by pipers from the London Scottish.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on October 6th, 1953, who completed their Fellowship or Membership before October 20th, 1953.

Associates elected Fellows

Ashworth, Edwin Turner, T.D.; 1936, A.C.A.; (E. Newsum & Son), National Provincial Chambers, 48 High Street, Doncaster.
Atkinson, John Francis; 1940, A.C.A.; 6, Chandos Street, Cavendish Square, London, W1, and at Maidenhead.
Coupland, Richard Alan; 1938, A.C.A.; (*Singleton, Fabian & Co), 30 Southampton Buildings, Chancery Lane, London, WC2, and 65 London Wall, London, EC2.
Dobson, Peter Holliday; 1948, A.C.A.; (Alfred Dobson & Co), Permanent House, The Headrow, Leeds, 1.
Freeman, Sidney; 1946, A.C.A.; (Freeman, Shalson & Co), Town Hall Chambers, 374 Old Street, London, EC1.
Madeley, Henry Montague; 1933, A.C.A.; (C. H. Coxen Madeley & Co) and (C. E. Smith & Bateman), Lionel Buildings, 70 Lionel Street, Birmingham, 3.
Middle, George Frank, B.Sc.; 1920, A.C.A.; (Folkes & Campbell), 15 & 17 Church Street, Stourbridge.
Parton, William Henry, O.B.E.; 1921, A.C.A.; (Gray, Stainforth & Co), Monument Buildings, 11-15 Monument Street, London, EC3, and 3 De Walden Court, 85 New Cavendish Street, London, W1.
Smith, Anthony John Peter; 1948, A.C.A.; (Legg, London & Co), 79 Eccleston Square, London, SW1.
Serry, Fred Haigh; 1935, A.C.A.; (Crone & Serry), 45 Park View, Whitley Bay, Northumberland, and at Newcastle upon Tyne.
Townend, Frank; 1937, A.C.A.; (A. E. Ellison & Co), Commerce House, Cheapside, Bradford.

*placed against a Firm Name signifies that the Firm is not exclusively composed of members of the Institute.

West, John Martin; 1938, A.C.A.; (Goodland, Bull & Co), 23A Fore Street, Tiverton, Devon, and at Taunton.

(Not in England or Wales)

Bartholomew, Edward; 1912, A.C.A.; (*Whinney, Murray, Baguley & Co), 27 Monckebergstrasse, Hamburg, 1; also at Antwerp and Paris, (*Whinney, Murray & Co).
Sampson, William Stephen Bertram; 1934, A.C.A.; (*Deloitte, Plender, Griffiths & Co), Rua Mexico 3, 12 Andar, (Caixa Postal 1338), Rio de Janeiro, and at Recife and São Paulo.

Admitted as Associates

(Not in Practice)

Burfoot, Meyrick Arthur, 194 Salmon Street, Kingsbury, London, NW9.
Coey, James Edward Colin, B.A.(ECON.), with Walters & Noble, 55 Welbeck Street, London, W1.
Everard, Gordon Geoffrey Ellis, with Ernest James & Co, 11, 12 and 13 Dowgate Hill, London, EC4.
Hobson, Henry Jonathan, with Edmonds & Co, Pearl Buildings, Commercial Road, Portsmouth.
Maitland, John Stuart, with Dixon, Wilson, Tubbs & Gillett, 24 Basinghall Street, London, EC2.
Preston, James Kenneth, 12 Southern Crescent, Bramhall, Cheshire.
Roberts, Derek Bernard, with Ashworth, Mosley & Co, Midland Bank Buildings, Spring Gardens, Manchester, 2.
Seed, William James, with Thomas Seed & Sons, 70 Norman Road, Rusholme, Manchester, 14.
Tetley, Sidney James, 68 Frankswood Avenue, Petts Wood, Kent.

(Not in England or Wales)

Davson, Christopher Michael Edward, c/o S. Davson & Co Ltd, P.O. Box 272, Georgetown, British Guiana, B.W.I.
Tarsh, Philip Maurice, c/o W. Bain & Co, P.O. Tanga, Tanganyika.

Former Member readmitted to Membership

Wood, Geoffrey Flindell, O.B.E., D.F.C., Royal Swinderby, Lincolnshire.

Personal

■ MR ERIC GREEN, F.C.A., practising under the style of BARRON & GREEN, Chartered Accountants, at Commerce Chambers, 127 The Headrow, Leeds, 1, announces that as from October 1st, 1953, he has admitted into partnership Mr GEORGE ARTHUR ASCOUGH, A.C.A., who served his articles with him and has been a member of his staff since qualifying in 1950. The practice will continue to be carried on under the name of BARRON & GREEN.

MR PETER LYNN, B.COM., A.C.A., announces that he has commenced to practise at 40 Mortimer Street, London, W1, under the firm name of Peter Lynn & Co, Chartered Accountants. Telephone: Museum 6756.

■ MESSRS SIMON JUDE & WEST, Chartered Accountants, of Lloyds Bank Buildings, 11-13 Victoria Street, Liverpool, 2, announce that Mr JOHN ERIC FISCHER, A.C.A., has joined the firm as a partner, as from October 1st, 1953. The name of the firm will remain unchanged.

MESSRS CLEMETSON, HILL, CROMWELL WOOD & Co, Chartered Accountants, of 5 Dane John, Canterbury, announce the dissolution of their partnership as from September 30th, 1953, and that the practice in future will be carried on by Mr H. E. CROMWELL WOOD, A.C.A., under the style, Cromwell Wood & Co.

MESSRS ROWAN & Co, Accountants and Auditors, of Cavendish House, Church Street, Malvern, announce that they have admitted into partnership Mr W. CLAUDE WALTERS, F.B.A.A., as from October 1st, 1953. The style of the firm will remain unchanged and the practice will continue at the same address, and at St Lawrence, Graham Road, Malvern.

■ MESSRS COLE, DICKIN & HILLS announce with deep regret, the death of SIR ARTHUR MIDDLETON, F.S.A.A., J.P., who was a partner in the firm for the past thirty-three years. He was Chairman of the London County Council and a member of the Council of the Society of Incorporated Accountants and Auditors.

Professional Notes

Mr A. M. Parsons, A.C.A., has been appointed secretary of Smith's Dock Co Ltd. He is to succeed Mr H. W. Welch, J.P., F.C.C.S., who is retiring at the beginning of December.

Mr H. A. Benson, C.B.E., F.C.A., a partner in the firm of Cooper Brothers & Co, has been appointed a director of the Finance Corporation for Industry.

Obituary

WILLIAM EDWARD MOUNSEY, J.P., F.C.A.

It is with deep regret that we announce the death at his home at Hoylake, on October 16th, of Mr William Edward Mounsey, F.C.A., who was a partner in the firm of Lewis & Mounsey, from 1892 until he retired in 1946 when the firm amalgamated with Harmood Banner & Son.

Mr Mounsey, who was 83, was admitted an associate of the Institute in 1892 and became a fellow in 1897. He was a member of the Council of the Institute from 1923 to 1942, being chairman of the Applications Committee from 1931 to 1936. He was the senior past president of the Liverpool Society of Chartered Accountants, having held that office in 1909-10, and he was also president of the Liverpool Chartered Accountants Students' Association in 1906-07.

Mr Mounsey did not take any part in local government but succeeded his father in the office of elective auditor of the City of Liverpool until his firm were appointed professional auditors. He was appointed a Justice of the Peace for the City of Liverpool in 1918 and was captain of the Royal Liverpool Golf Club in 1925, being also hon. treasurer for a number of years.

Prior to the introduction of the National Health Service in 1948, Mr Mounsey was for many years an active member of the governing body of the Liverpool Stanley Hospital and Robert Davies Nursing Home.

In recognition of his services as honorary treasurer of the Port of Liverpool Branch of the Royal National Lifeboat Institution for thirty-eight years until his resignation in 1950, he was appointed an Honorary Life Governor of the Institution, the highest honour which it can confer on an honorary worker.

SIR ARTHUR MIDDLETON, J.P., F.S.A.A.

We have learned with regret of the sudden death, on October 19th, of Sir Arthur Edward Middleton, J.P., F.S.A.A., a senior partner in the firm of Cole, Dickin & Hills, of London, and Chairman of the London County Council.

Sir Arthur Middleton, who was aged 61, was elected Chairman of the London County Council in April of this year and received his knighthood on July 6th when the Queen visited County Hall to attend a Coronation year reception, held in her honour. Sir Arthur had been a member of the London County Council since 1942 and had served as vice-chairman of the hospitals and medical committee, vice-chairman of the finance committee and

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chairman of the restaurants and catering committee.

He was admitted an associate of The Society of Incorporated Accountants and Auditors in 1917, having passed his Final examination with honours, and became a fellow in 1922. He was elected a member of the Council of the Society in 1946. In 1914 he passed the Final examination of The Institute of Municipal Treasurers and Accountants of which he was a member for a period during the First World War whilst in the office of the Cambridgeshire County Accountant.

A director of several companies, Sir Arthur had also been the Ministry of Agriculture's adviser to the Hops Marketing Board; he was a member of the Royal Commission on the Press appointed in 1947, and was particularly concerned with the Commission's investigation into the financial structure of the Press.

In his younger days Sir Arthur was a keen athlete; he turned to golf in later years and became captain of Laleham (Middlesex) Golf Club.

London and District Society of Chartered Accountants

At a meeting of the London and District Society of Chartered Accountants to be held next Wednesday, October 28th, at 6 p.m., in the Oak Hall of the Institute, Mr C. H. Scott (Solicitor), will speak on 'Public issues: preliminary considerations for private companies'.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday. - 5.30 p.m.: Lecture: 'The prospectus of a limited company', by Mr H. J. S. French, O.B.E., B.C.L., of the London and Yorkshire Trust Ltd.

Tuesday. - 5.30 p.m.: Demonstration of Kenrick & Jefferson Accounting Systems (limited number).

Thursday. - 5.30 p.m.: Debate: Motion 'That experience counts for more than a diploma'.

Friday. - 5.15 p.m.: Introductory course lectures on (1) 'A summary of taxation'; (2) 'The law on sale of goods'.

Central London Discussion Group

The first meeting of the Central London Discussion Group of the London and District Society of Chartered Accountants was held on Tuesday, September 29th, at *The Lamb and Flag*, 33 Rose Street, Covent Garden, WC2, when Mr D. J. Ginnings, F.C.A., F.S.A.A., introduced the topic 'Estate duty avoidance', which was followed by an interesting discussion. The meeting was attended by twenty-one members of the group.

The next meeting will be held on Thursday next, October 29th, at the same place when Mr J. W. Shock, M.A., A.C.A., will introduce the topic 'Directors' expenses' for discussion.

Information concerning the group may be obtained from the hon. secretary, Mr A. Child, T.D., B.COM., A.C.A., Hillmount, 9 The Woodfields, Sanderstead, Surrey.

Annotated Tax Cases

Part 6 of Volume XXXII of the *Annotated Tax Cases*, edited by Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *In re Cunliffe-Owen* (C.A.); *Baddeley (Newtown Trustees) v. C.I.R.* (C.A.); *Jennings v. Middlesbrough Corporation* (Ch.D.); *Stokes v. Bennett* (Ch.D.); *Goff v. Osborne & Co (Sheffield) Ltd* (Ch.D.); *Burlah Trust Ltd v. C.I.R.* (Ch.D.); *Halbur Trust Ltd v. C.I.R.* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF OCTOBER 26TH, 1878
To the Editor of the *Accountant*.

Bankruptcy Law Amendment: Voting by Proxy

SIR,—How absurd it is for solicitors or accountants, or others, to endeavour to prevent creditors from appointing any one that may have their confidence to represent them at meetings for the settlement of the affairs of debtors! In most cases of importance, the principal creditors, could not attend themselves; because, amongst other reasons, it would most probably happen that they were creditors in several estates, the meetings of which were held on the same day, hundreds of miles apart. How would solicitors like a law to be passed which restricted them to one client in any particular case? The same question may be asked with regard to accountants. To say that a law should be passed restricting creditors from appointing proxies is tantamount to saying that creditors, as a general rule, are such fools that they do not know what they are about when they sign a form of proxy. So again, it may be inquired, is Parliament to be asked to pass a law preventing commercial or manufacturing houses from employing travellers who have commissions for more than one firm? It is simply impracticable.

Yours, &c.,

ABSURD.

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The Accountant

ESTABLISHED 1874

OCTOBER 31ST, 1953

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CONTENTS

Leading Articles	<i>Page</i>
Reports of Public Companies: <i>The Accountant</i> Annual Award	489
Not too Old at Forty	490
Special Article	
Days from My Diary by <i>A Martyred Accountant</i>	491
Lectures	
The Excess Profits Levy - I by <i>E. N. Macdonald, D.F.C., F.C.A.</i>	492
Stock Investment Control by <i>R. J. Gibbens, F.C.W.A., A.M.I.I.A.</i>	498
Weekly Notes	500
Finance and Commerce	502
Correspondence	506
Taxation Conference	
Highly Successful Third Annual Event at Bournemouth	508
The Chartered Accountant Students' Society of London	
President's Meeting	511
News from the Committee	511
Reports of Public Companies: <i>The Accountant</i> Annual Award	512
Notes and Notices	
Personal - Professional Notes - New Lord of Appeal in Ordinary - Obituary - The Late Sir Arthur Middleton: Memorial Service - In Parliament - London and District Society of Chartered Accountants - Birmingham and District Society of Chartered Accountants - Birmingham and District Chartered Accountants' Golfing Society - Tax Instruction in School - Assistant Official Receiver Appointed - Chartered Accountants' Golfing Society - Union of Chartered Accountant Students' Societies - The Chartered Accountant Students' Society of London - The Institute of Internal Auditors - Monopolies and Restrictive Practices Commission - Cost Accounting and Productivity - Our Contemporaries - Overseas Economic Survey: France - Review of Commercial Conditions in Syria - Twenty-five Years Ago - Seventy-five Years Ago	512

REPORTS OF PUBLIC COMPANIES

THE ACCOUNTANT ANNUAL AWARD

ELSEWHERE in this issue we publish an announcement that *The Accountant* proposes to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange, in relation to the form and contents of the reports and accounts as issued to their members.

The announcement goes on to say that the factors which will be considered by the panel of judges will include the adequacy of the information given and its presentation.

For over twenty years the need for more informative company accounts has been fostered by the illustration in 'Finance and Commerce' of existing deficiencies, and by the encouragement of improvement in examples taken from current accounts of public companies. In the early days after the 1929 Act, one of the main difficulties was to overcome the inertia of company directors, but the task was made easier by the example of the pioneers in the development of modern account presentation and particularly the example of the Dunlop Rubber Company following the appointment of Mr F. R. M. DE PAULA, C.B.E., F.C.A., as the company's chief accountant at the end of 1929.

The example of the pioneering companies was gradually adopted in the years leading up to the outbreak of war, and it is a fair measure of the improvement in the general level of account form that in many ways the 1948 Act was a consolidation of the best practice regarding the presentation of accounts.

Although the pioneering days are long past, the improvement in account presentation continues in the wider appreciation that the 1948 Act demands only a legal minimum.

MR MONTAGU GEDGE, Q.C., is the chairman of the panel of judges of *The Accountant* Annual Award. He is the chairman of the committee set up by the Board of Trade in 1952 to consider the desirability of permitting the issue of shares of no par value, and he was a member of the Company Law Amendment Committee, 1943.

The other members of the panel are MR W. L. BARROWS, J.P., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales; SIR HAROLD M. BARTON, F.C.A., a Past President of the Institute and a member of the Council of the Institute; THE RT. HON. LORD LATHAM, J.P., F.A.C.C.A., President of The Association of Certified and Corporate Accountants and, until last month, chairman of London Transport Executive; MR THOMAS LISTER, M.A., C.A., a member of the

Council of The Institute of Chartered Accountants of Scotland and Convenor of the London Local Committee of the Scottish Institute; MR BERTRAM NELSON, J.P., F.S.A.A., Vice-President of The Society of Incorporated Accountants and Auditors; MR G. TYSER, a director of Lazard

Bros. & Co Ltd, chairman of the Mercantile Group of Investment Trust Companies, deputy chairman of the Phoenix Assurance Company and a director of Monsanto Chemicals Ltd and the Colonial Development Corporation; and the Editor of *The Accountant*.

NOT TOO OLD AT FORTY

THE Government attaches a great deal of importance to the first report of the National Advisory Committee on the Employment of Older Men and Women which was recently published as a Blue Book¹. In brief, the report sets out to show that older people can and ought to remain at work beyond the currently accepted ages of retirement.

The statistical background of this new conception of the position of older people is becoming fairly familiar nowadays. The proportion of elderly folk is rising and that of persons in the most active age group, 20-40 years, is falling. The report points out that in 1911 only one man in fifteen was aged 65 and over. Thanks to the growth of medical science, the higher living standards of the masses, and the expansion of the health services, this proportion had risen to two in fifteen by 1951. In 1977 it will have become three in fifteen. On the other hand, the comparatively low birth-rates of the last two or three decades are reducing, and will still further reduce, the proportion of 20-40s.

The report of the Ministry of National Insurance (Cmd. 8882) published in July last provided evidence that the financial burden of retirement pensions would begin to rise rapidly in the near future and assume substantial proportions in twenty years' time. We have the paradoxical situation that at a time when people are living longer and reaching the conventional retirement age in a state of health and efficiency, they are given encouragement to retire by the pensions available to them. Clearly production must rise to maintain these old people. If retirement can be postponed, however, the older people will themselves be helping to provide the extra resources required for their maintenance.

It is not enough to be aware of the need for older people to continue working after 60 or 65;

employers must be convinced that it is advantageous to employ them after this age. Over the country as a whole, about 400,000 or half the men aged 65 to 70 are working, but only 250,000 or one in five of those over 70 are still in jobs. The report regards it as its primary task to dissipate any impressions that still remain to the effect that elderly people are not worth employment, and indeed the figures just quoted show that many employers do value the work of old people. Moreover, it may well be in the interests of the old folk themselves to continue to work. There is no medical support for retirement at a fixed age. Such retirement may condemn many able and active people to a condition of idleness or boredom which has a much more deleterious effect than any amount of work.

From the point of view of employment, the report points out many jobs requiring at least moderately heavy muscular effort are done successfully by older people. The older person is at some positive advantage in jobs which require accuracy and attention to detail and in which he can use judgment founded on experience. For some employers the older worker has a rare value as a teacher of his craft to the young. In short, the retirement policy recommended is that all men and women employed in industry, commerce, the professions or elsewhere who can give effective service, either in their normal work or any alternative work which their employer can make available, should be given the opportunity, without regard to age, to continue at work if they so wish.

Employment in the professional, managerial and executive work is generally stable, but those who become unemployed usually find it particularly difficult to get other suitable work. Pensions schemes, which probably affect some six million employees - half of them manual workers - are an obvious difficulty to the recruitment of the elderly. This can be partly overcome

¹ Cmd. 8963. Published by H.M.S.O. price 2s net.

if the pension rights accorded to late entrants are strictly related to the actuarial value of their contributions and those of their employers. The committee is to study the possibilities of transferable pensions schemes, but the chairman (MR HAROLD WATKINSON, M.P.) seems a little dubious about them.

A further difficulty arising from the retention of old people is the tendency it has to block the promotion of those in middle life. Should retention after 60 or 65 become the usual practice, it would also become customary to regard the peak of a person's career as occurring somewhat later than it does now.

DAYS FROM MY DIARY

by A MARTYRED ACCOUNTANT

Friday 2nd - L. (client) on telephone in towering and incoherent rage, target being F. (semi-senior). Unable to sort out story from epithets, ring off and send for F. Appears that F. has been taking L.'s favourite secretary, Miss H., out to lunch and looking at engagement rings. F. nice chap, Miss H. nice girl, L. & Co very nice job. What does Martyred Accountant do now?

Monday 5th - As auditor of humble subsidiary, pay first visit to premises of parent company. From without, these appear old, but colossal; within, receive formidable directions. Scale two stairways; pass three swing-doors; turn five corners; fourth swing-door opens on dark store-room. Am lost. Knock timidly nearby. Studious occupant looks blankly from behind huge desk. Is sorry, does not know way round, is only an auditor. Next room contains conference of ten females, all talking. Finally, bump into my director in corridor - he is searching for maintenance department, to fix his internal telephone.

Thursday 8th - On trust job with foreign income and eight beneficiaries, three of them non-resident, all of them with advances in hotchpot, one of them just deceased with advances in excess of present interest, leaving children with ultimate interest on further deaths, plus complications of special contribution and unsettled war damage claim. Getting to grips when enter P. (partner) who begins to describe his case involving *Osler v. Hall* double succession in firm of six sharing two kinds of profit in different ratios, with one change before and the other after the last Finance Act. Resisting violent impulses, take him out for sherry. Tell him about hotchpot. Another sherry. He enlarges on double succession. . . . Consensus reached with third sherry; counsel's opinion and a bit of smoked salmon.

Wednesday 14th - At factory of manufacturing chemists, learn they have opened own advertising department. Visit same, find emaciated gentleman with hobbled hair in throes of poster. This observes, simply and brutally: 'Don't be like poor Yorick - take Blugg's paregoric'; but illustration beyond my untrained appreciation. True, there is realistic and highly polished skull; but am unable to interpret presence of egg-timer, beer-bottle, leopard-skin, the

Marble Arch, two sausages and a trombone. Am told their significance unimportant, so long as they arrest attention. Thoughts inevitably stray to recent speech by our (elder) brother-profession's new president, in which he advocated advertisement by lawyers. Once they start, dare we be far behind? On way home examine possibilities. Would it not be nice to insert arresting matter in midst of auditor's report?

No. Perhaps we should content ourselves with a national C.A. week. Gather no beauty queen was elected at the Scarborough meeting, but that would be easily remedied.

Tuesday 20th - Have to get papers to client who is at Motor Show. Suspect V. (articled) would like trip; ask him if he has finished those percentages yet. No, but promises by 5.30 if he may go. Dubiously agree. On inquiry at 5.25 find he is still out. However, at 5.27 in he walks. 'Lovely show, sir. You should have come along.' Before I can mention the lovely percentages, he whips them on to my desk. Appears he finished them in the driving-seat of a Coupe-de-ville, smoking gift cigar; strange thing is, he got them right.

Saturday 24th - Lucky to acquire two gallons at local garage. On leaving am approached by person with unnatural shoulders and pictorial tie: 'Want a bit more gas, guv? Real Pool! Seen yer Sunday joint? Infiniscopic, eh? What say a coupla nice Icelandic cod; see yer through?' Unperturbed by my refusal, he hopefully inquires my trade. 'Nah,' he says when I tell him, 'accounts - never use 'em!'

Monday 26th - At clients' cocktail party, find self next to Sir L. S.-D., who does not know me from Adam Smith. Coins phrase about money being a curse; by the way, his figure-man, an excellent chap - used to take on all the worries, but now getting past it. Do I happen to know of a really good accountant? (Await Institute recommendation as to reply.)

Thursday 29th - Little Woman peruses typescript of diary. Exercises to full undoubted gift of oral criticism. Example given of way in which diaries should be written - Mrs Clarke's delightful 'View' of autumnal meeting in last week's issue of *The Accountant*. Self-defence difficult; observe one does not compare champagne with soda-water; sadly promise not to do it any more.

THE EXCESS PROFITS LEVY—I

by E. N. MACDONALD, D.F.C., F.C.A.

Statutory references are to the Finance Act, 1952, unless otherwise indicated.

Introduction

THE writer of a paper on a professional or technical subject may usually be pardoned if he cherishes the hope that he has contributed something to the permanent literature of that subject. The hope that I cherish is radically different. I ask nothing better than that, not only this paper, but my subject itself, will be obsolete and forgotten in the shortest possible space of time. The Chancellor of the Exchequer has co-operated handsomely by providing for the repeal of excess profits levy with effect from January 1st next.

This is not the occasion, however, on which to indulge in vilification of the levy. The Council of the Institute, in its second supplementary memorandum to the Royal Commission on the Taxation of Profits and Income, achieved in paragraphs 391 to 396 what *The Accountant* in a leading article described as 'the quintessence of all that has been said against it'. I do not propose to attempt any greater concentration than a quintessence. I merely associate myself respectfully with all that those paragraphs contained, exercising towards the dying that same forbearance enjoined upon us in speaking of the dead.

The obvious difficulty in presenting a paper of this sort is in deciding what ground to cover, in face of the impossibility of covering it all. In general I have attempted to deal with matters of wide application, ignoring specialized aspects of the levy and specialized types of business, and inclining rather to points on which doubt or difficulty have arisen in my own firm, or in discussion with clients or with members of our profession, or in negotiations with H.M. Inspectors of Taxes.

The provisions of the Finance Act, 1952, on excess profits levy have brought about many anomalies and inequities and most of us expected a long series of amendments in the Finance Act, 1953. Instead, there is only one section, occupying only one and a half pages of the Act. One can sympathize with the Chancellor's reluctance to embark on further

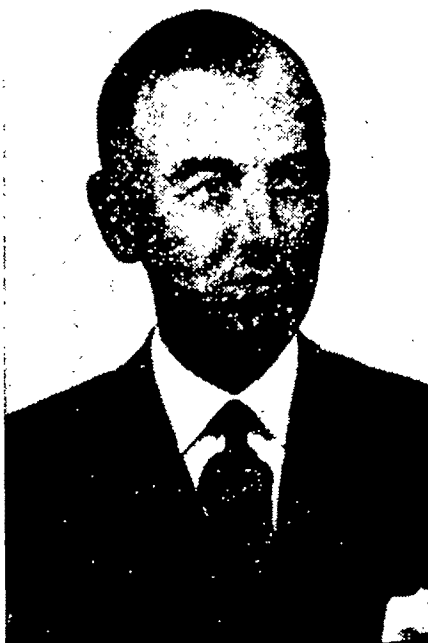
complications to a levy which he was in the act of repealing, but the position remains unsatisfactory. The Council of the Institute, in its memorandum to the Chancellor on the Finance Bill, 1953, suggested as a way out that specific power should be given to the Commissioners of Inland Revenue to grant concessional treatment where it could be shown to their satisfaction that serious inequity would otherwise arise. Normally, one demurs at discretionary powers in the hands of the Commissioners of Inland Revenue and would prefer to see firm law and the remedy of appeal, but the circumstances were exceptional. However, even this plea did not meet with a favourable reception, and virtually all the defects of the 1952 Act remain unchanged.

Official Aids

Before the Finance Act, 1952, received the Royal Assent, requests had already been made to the Inland Revenue that explanatory leaflets on excess profits levy should be made available to the public, on the same lines as the leaflets on capital allowances which were issued after the passing of the Income Tax Act, 1945. Admittedly there was much less

time for preparation of literature in 1952, particularly after the extensive changes in the proposed levy during the passage of the Finance Bill through Parliament, but the response of the Inland Revenue was undoubtedly disappointing to the taxpayer and to the accountancy profession. All that was made available were copies of the forms on which Inspectors of Taxes set out their computations, together with notes explaining those forms. The forms are models of compactness but they are drawn, quite rightly, for straightforward computations only, with the result that the notes are not in any sense an exposition of the levy. Important matters such as the transfer of a business as a going concern and the treatment of a group of companies are not dealt with at all. It will be interesting to hear whether members generally are using the official computation forms or whether greater freedom of layout is preferred, relegating the forms to the function of a mere check that all the necessary adjustments have been taken into account—so far as they apply.

Be that as it may, we have not had the guidance,



Mr E. N. Macdonald, D.F.C., F.C.A.

A paper presented on October 10th at the autumnal meeting of The Institute of Chartered Accountants in England and Wales, held at Scarborough, October 8th to 10th, 1953.

complete with examples, which was so helpful on the Income Tax Act, 1945, and have been thrown back on our own resources and the gradual teaching of experience to find our way through this most complicated piece of legislation, with its wealth of cross-references, both internal and to the profits tax legislation.

Standard Profits

The first task to which we have all had to address ourselves is the selection of the best possible standard in the light of the rules for computing profits and in face of an almost bewildering field of choice. Leaving aside territory in Japanese occupation during the war, there are, I think, fourteen possible standards for a company whose trade began on or before January 1st, 1947, with additional variations according to the exercise of certain options. For very many companies, of course, the choice of a standard has been an obvious one, but not by any means for all companies; for some of the possibilities have had to be fairly exhaustively tested.

Initial allowances

The treatment of initial allowances, for example, may interact with the selection of a standard. To approach the question in reverse, where the standard must clearly be a percentage on share capital or a percentage on net assets or a minimum standard, it will be advantageous to take initial allowances because only the chargeable periods will be affected thereby. Where profits are likely to be the basis for one or both of the standard years, however, it may prove necessary to await the end of excess profits levy before deciding, not only whether to abandon initial allowances, but which two years to select as the standard years and possibly whether to take a percentage standard for one of them. The following is a simplified example of the problem, ignoring other factors:

	1947	1948	1949	Standard
Profit	£10,000	£10,500	£11,000	1948-49 £10,750
Less Initial allowances	500	1,200	2,500	
	<u>£9,500</u>	<u>£9,300</u>	<u>£8,500</u>	1947-48 £9,400

If, when excess profits levy finishes, initial allowances in the chargeable periods are found to have been less than £1,350 per annum on average, notice would be given, if this had not been done at the outset, that initial allowances were to be abandoned. This figure of £1,350, it will be noticed, is not the average of the initial allowances in any combination of standard years, but simply the difference between the best standard without initial allowances and the best standard with initial allowances.

The percentage on average share capital, let us now suppose, was £9,000 in 1947 and 1948 and £10,000 in 1949. The latter figure is better than the profit less initial allowances for 1948 and 1949 and could be combined with 1947 to give a standard of £9,750.

The critical figure for initial allowances in the chargeable periods would then be an average of £1,000 per annum and notice to abandon them would only be given if they were less than that figure. We must evidently keep it in mind, therefore, that when the treatment of initial allowances is reviewed after the last chargeable period it may be necessary to review the choice of a standard as well.

The rule dealing with initial allowances has a rather obscure sub-clause (Rule 3 (i) (d) of the Ninth Schedule) which has been wrongly interpreted in some quarters. It refers to premises on which the election to depart from mills and factories allowances and to take initial and annual allowances was only made after April 5th, 1947. I have seen it stated that the clause means that on such premises the mills and factories allowance is to be continued for the purposes of excess profits levy, but this is not so. The clause merely prohibits initial allowances on such premises for excess profits levy purposes, even though initial allowances in general be taken. The reason for the prohibition is presumably because 'the appointed day' for an industrial building does not arrive until April 6th in the year of assessment in which the election to abandon the mills and factories allowance is made, and because all capital expenditure on the building from April 6th, 1944, onwards is, by Section 1 (3), Income Tax Act, 1945, deemed to have been incurred on the appointed day. An election for this treatment in, say, 1951-52 could thus produce an inflated initial allowance for 1952-53 with a resulting diminution (but for Rule 3 (i) (d)) of the profits chargeable to excess profits levy. One or more of the standard years could be similarly affected by a departure from the mills and factories allowance in 1947-48 or 1948-49, to the detriment of a profits standard. For the same sort of reason, but purely by way of protection for the taxpayer, initial allowances on expenditure on both plant and industrial buildings incurred between April 6th, 1944, and April 5th, 1946, are prohibited for excess profits levy because that expenditure, assuming industrial buildings allowance was taken for 1946-47, was all treated for income-tax purposes as having been incurred on April 6th, 1946, and gave rise to unnaturally large initial allowances for 1947-48. These two sub-rules have proved to be for many companies important factors in the ascertainment of the initial allowances to be deducted and, as a result, in the choice of standard years.

The relevant date

Another factor in selecting a standard has, for some companies, proved to be the relevant date from which under-distributions and over-distributions of profit are calculated. The average profits of 1947 and 1948 may be less than the average for 1948 and 1949, but the percentage allowance on undistributed profits for an extra year, from July 1st, 1947, instead of July 1st, 1948, may turn the scale in favour of 1947 and 1948. Incidentally, the fixing of these

relevant dates in the Act seems to have been designed as a rough set-off against the fact that, in each chargeable period, accruing profits of that period are ignored in arriving at the allowance for undistributed profits. This loss of six months' profits is compensated by setting the starting point six months before the average date of the standard years.

Borrowed money

The existence or absence of borrowed money has been a further factor in selecting a standard. Standard years with average borrowed money of, say, £10,000, are poorer by £400 than standard years with no borrowed money and the same profit, because of the 4 per cent allowance or penalty on the increase or decrease of average borrowed money in the chargeable period compared with the standard period.

Where the standard is a percentage on share capital or on net assets at December 31st, 1946, or December 31st, 1951, borrowed money in the standard period is taken as nil, with the result that it has been, for some companies, a factor influencing the choice of basis as well as the choice of one year's profits in preference to another's.

A point on which I have found there is some doubt is the treatment of a bank account which at times is in credit and at times is overdrawn. If it be borne in mind that we are not concerned with the average balance on a bank account but solely with average borrowed money, it becomes clear that credit balances should be entirely ignored. If necessary, the bankers should be asked to analyse their charges so that the figure of interest on day-to-day overdrafts can be separately identified and, the rate of interest being known, the average indebtedness can be calculated. There should not be any need to work on the average of the amount overdrawn on a given day in each month or similar approximations. Borrowed money includes accommodation obtained by the discounting of bills receivable, and, I should have thought, credit obtained through acceptance facilities for bills payable; for the latter the treatment for excess profits tax was at the option of the taxpayer, but I understand that the Inland Revenue is seeking to exclude credits from borrowed money for the purpose of excess profits levy.

Increase of share capital

Where a profits standard is in force, an increase of share capital after the beginning of the standard period naturally earns an increase in the standard. A point on Section 38 (2) of the 1952 Act has been encountered, possibly not of very wide application, but worth a moment's attention. A company which made up its accounts annually to March 31st issued additional share capital in June 1951. The computations sent to H.M. Inspector for the first chargeable period ending on March 31st, 1952, claimed an addition to the standard profits for a full year of 12 per cent on the new capital and divided the result by four to apply it to a chargeable period of three

months. H.M. Inspector contended that the addition to the full year's standard should be reduced to a nine month's proportion of 12 per cent on the new capital, since the chargeable profits were an apportionment of the profits for the year to March 31st, 1952, and during that year the company had the benefit of the additional capital for only nine months. In reply he was referred to the proviso to Section 38 (2), which restricts the addition only where the increase in capital occurs during the standard years or during the chargeable accounting period; there is no restriction where the increase occurs during the non-chargeable portion of an accounting period of which the chargeable period is a part. H.M. Inspector agreed, but for once logic was undoubtedly in favour of his view and the law in favour of the taxpayer's.

Deferred repairs

The protection afforded by Rule 12 of the Ninth Schedule in the matter of deferred repairs has proved extremely valuable to many companies and the adjustments to profits for which it provides should, of course, be carried out before selecting the standard years for any pre-1947 company coming within its scope. Although the rubric to the rule is 'Repairs and renewals deferred from war years' and there is a stipulation that the rule only applies if a deferred repairs claim was not made for excess profits tax purposes, it seems clear that there need not have been any question of liability to excess profits tax or any question of deferred repairs. The safeguard is purely an arithmetical one; provided we are dealing with 'repairs and renewals necessary to maintain assets in an efficient working condition' the deduction in the standard years will be limited to a suitable proportion of the aggregate expenditure of the ten years 1940 to 1949, even though the cause of high expenditure in the standard years may have been merely additions to plant or buildings a few years earlier. If, on the contrary, a deferred repairs claim was made for excess profits tax purposes, there is a measure of automatic protection for the profits of the standard years, because expenditure on deferred repairs in those years will already have been disallowed in the profits tax computations on which the excess profits levy computations are based.

Percentage on net assets

Where it proves advantageous to adopt a standard based on assets less liabilities at December 31st, 1946, or December 31st, 1951, there are one or two points which are perhaps worth mentioning in the rules of the Eighth Schedule for computing the values of assets. Subject to specified exceptions (which cover a wide field), assets are to be taken at the amount paid therefor in cash which, by Section 66, includes other valuable consideration. This basis of valuation extends to trading stock, with the result that where for other taxation purposes the value of trading stock at the date chosen has been reduced below cost, it will be permissible, for the

imited purpose of a standard based on net assets, to estore the amount by which it has been written down.

A further point which emerges from the table in paragraph 5 of the Tenth Schedule is that industrial buildings are only required to be valued at the residue of expenditure if allowances have been made under Part I of the Income Tax Act, 1945. An industrial building for which annual allowances have not been claimed, possibly because its legal life of fifty years has expired or is approaching expiry, can therefore be included at cost, but a more recent building, for which the mills and factories allowances have been abandoned in favour of annual allowances, must be written down by the total initial and annual allowances granted, including mills and factories allowances for 1937-38 and subsequent years, on the formula provided in Section 4 of the Income Tax Act, 1945. This may well produce some very illogical results.

If accounts were not prepared at December 31st, 1946, or December 31st, 1951, as the case may be, Rule 10 of the Eighth Schedule provides that assets and liabilities are to be taken as at the date of the immediately preceding balance sheet, with an addition for undistributed profits of the intervening period. These undistributed profits are calculated by reference to the rules of the Tenth Schedule, modified to allow for the fact that liabilities for income-tax and profits tax are separately deducted. An odd point about Rule 10, however, is that it does not provide for any deduction from the net assets if there has been an over-distribution of profits between the date of the preceding balance sheet and the selected December 31st.

Percentage on share capital

The numerous options available to a pre-1947 company as a basis for its standard include a percentage on its paid-up share capital at December 31st, 1946, or December 31st, 1951. If share capital has been issued for valuable consideration between those dates, it is likely that December 31st, 1946, is the more profitable one to choose, because the issue will carry an allowance of 12 per cent if it represents an addition to standard capital, but only 10 per cent if the date selected is December 31st, 1951, as it will merely form part of the share capital at that date. The advantage of choosing the earlier date might, of course, be nullified by over-distributions of profit in the intervening period.

Adjusted Profits for Excess Profits Levy

The starting point for the excess profits levy computation is the profits tax computation, which is modified in the light of the seven pages of rules constituting the Ninth Schedule to the Act. They are mainly designed to eliminate the hills and dales produced in the level of profits by the artificialities of the income-tax and profits tax rules and I have already referred to one or two of them in their bearing on standard profits.

Directors' remuneration

On director-controlled companies the adjustment for directors' remuneration is one that we are all faced with. The more generous scale laid down for profits tax from January 1st, 1952, is applied to the standard years as well, although profits tax will actually have been paid on the old scale and, moreover, the value of money has decreased since the years 1947 to 1949. A feature which has been brought home to some companies is that although the extra 2 per cent for director-controlled companies, in their capital standards and on undistributed or over-distributed profits, is dependent on the existence of director-control in the chargeable period, that is not the criterion in dealing with directors' remuneration. Directors' remuneration will be restricted in computing the profits of any period during which they have a controlling interest, regardless of whether control exists during any particular chargeable period. We may thus have standard profits computed without restriction of remuneration and chargeable profits computed with restriction of remuneration, if in the meantime the company has become director-controlled. This can produce results very unfair to the taxpayer, but equally the converse of these circumstances can operate to his advantage.

Investment income

The treatment of investment income in computing excess profits levy is different from its treatment in computing profits tax, in that there is no such thing as franked investment income. Investment income forms part of the profits in both standard periods and chargeable periods, with the result that a double imposition arises where a company making excess profits receives increased dividends out of the excess profits of another company, and a sort of unmerited relief arises where a company making excess profits receives decreased dividends from another company making deficiencies. The legislature has apparently taken the view that the only companies likely to be seriously affected by this anomalous state of affairs are investment companies, and has dealt with the problem in Section 52, by making them liable to excess profits levy on a proportional basis. The excess or deficiency of an investment company is arrived at in the normal way, with all investment income brought into the computation of chargeable profits and, if a profits standard is chosen, into the computation of standard profits too. The resulting figure is then diminished by subtracting from it that proportion which profits in the chargeable period attributable to dividends from United Kingdom companies bear to total profits in that period. The same proportion of profits is also taken for the purpose of ascertaining whether 15 per cent thereof is less than 30 per cent of excess profits.

The application of these investment company provisions achieved the distinction of being one of the very few matters which were amended by the Finance Act, 1953. The intention of the provisions

was benevolent, but it soon became apparent that they could equally well be burdensome instead. Furthermore, they could be applied to a group of companies only if every member was an investment company, which meant that the existence of one small trading member might impose a totally irrational liability on the group as a whole. Section 27 (2) of the Finance Act, 1953, very properly rectifies these anomalies by permitting a contracting-out from the investment company formula and by permitting the application of the formula to a group if substantially the whole of the functions of a single company which combined all the functions of the members, would consist in the holding of investments. Both these options can be exercised at any time before December 31st, 1954.

The Overriding Limit

The operation of the over-riding limit of 15 per cent of the chargeable profits presented the possibility of a good deal of complication which has been mercifully reduced by the curtailment of the life of the levy to two years. There has been evidence, however, of some misconception of the effect of the limitation which it may be desirable to dispel. The misconception arises on some awkward phrasing in the proviso to Section 43 (1), where the relief necessary to reduce the levy from 30 per cent of the excess profits to 15 per cent of the profits of a given chargeable period is made provisional only, and, in the event of 30 per cent of the excess profits in a subsequent period being less than 15 per cent of the profits, that relief is to be adjusted 'so as to do no more than' reduce the aggregate levy for all periods to 15 per cent of the profits for those periods. This does not mean that once the overriding limit has come into play it becomes a minimum liability; it merely causes the limit to apply to the running total of all periods, and if the running total of 30 per cent of excesses less deficiencies falls below the limit the relief will not apply. In other words, we shall always be safe if we calculate on the one hand 30 per cent of excesses less deficiencies to the end of a given period and, on the other hand, 15 per cent of profits less losses to the same point, and pay or receive whatever is necessary to produce the smaller of the two.

As Mr J. E. Talbot pointed out in his paper at the summer course last year, there will always be curious results in a chargeable period for which it is advantageous to change from one rate to the other. Furthermore, it is quite possible for a company to be liable for a payment of excess profits levy for a period showing a deficiency, even though the 15 per cent rate applies to each year.

	1952	1953	Total
Profits of chargeable accounting period	£ 30,000	£ 10,500	£ 40,500
Standard profits	9,000	11,000	20,000
Excess or deficiency	£ 21,000	£ 500	£ 20,500
30 per cent of excess or deficiency	£ 6,300	£ 150	£ 6,450
15 per cent of profits	4,500	1,575	6,075

In the above example, relief under Section 43 would be given for 1952 and excess profits levy at 15 per cent of the profits would be paid. For 1953 the deficiency of £500 is not effective because, in total, the 15 per cent basis still gives the smaller liability and excess profits levy of £1,575 would be paid, representing a withdrawal of relief previously granted.

Undistributed Profits and Over-distribution of Profits

Instead of the computations of average capital with which we were familiar for excess profits tax, we now have an adjustment of the standard profits except where a minimum standard is taken, by reference to undistributed profits and over-distributions of profits from the relevant date onwards. In order to arrive at something approximating to what actually remains in or goes from a company's coffers each year, a definition of profit for this purpose is laid down in Rule 2 of the Tenth Schedule, very different from the profit arrived at under the Ninth Schedule for standard and chargeable profits. This was a little disconcerting at first but we are now accustomed to ignoring, in arriving at profits for distribution purposes, virtually all the variations of the profits tax rules, such as those dealing with initial allowances, balancing allowances and charges unreasonable expenses, spreading of expenses, back service payments and deferred repairs. In addition of course, directors' remuneration disallowed and annual payments disallowed as not incurred for the purposes of the trade, must be deducted in arriving at profits for distribution purposes.

An item which one might expect to be taken into account in arriving at undistributed profits is interest on tax reserve certificates, but it is left out altogether. It is true that it does not form part of the profits for the purpose of any charge to taxation, but whether it be regarded as tax-free income or as a diminution of the burden of taxation, it is undoubtedly an accretion to a company's funds and ought to qualify accordingly for an allowance representing its earning capacity.

Capital gains and losses

The calculation of undistributed profits has another somewhat surprising feature, in that capital surpluses are not taken into account as such. So far as they arise from the proceeds of assets on which capital allowances have been obtained, they will be partly or wholly reflected, subject to a time lag, in balancing charges and thus find their way into the calculation of undistributed profits. Where, however, capital surpluses arise on assets which have not been the subject of capital allowances, or where they represent an excess over original cost, they do not have any effect on under-distributions and over-distributions. This is, I think, not so unfair as at first it seems. If an asset has increased in value above its original cost, possibly despite some years of use, the reason

may well be that its earning capacity has increased; if that be so, the surplus on realization does not represent an inflow of new earning capacity calling for an adjustment of the standard profits. It must also be borne in mind that losses on the disposal of capital assets do not result in any adverse adjustment of the standard profits, except so far as balancing allowances diminish the profits brought into the Tenth Schedule calculations.

Meaning of distribution

The wide definition of distributions for profits tax purposes does not apply to excess profits levy. Rule 1 (3) of the Tenth Schedule refers only to:

'the net amount distributed for the accounting period by way of dividend or cash bonus to the members, or any class of the members, of the body corporate, as such',

and

'the value of any assets distributed in the accounting period in kind to the members, or any class of the members, of the body corporate, as such'.

There is no distinction drawn for this purpose between director-controlled companies and other companies and there is no reference to amounts applied by way of loans or otherwise, for the benefit of any person. The result is that the type of distribution frequently encountered in the profit computations of director-controlled companies, namely, loans made to the directors, is not classed as a distribution.

forward and applied to the next accounting period in the same way.

Three points in this process are perhaps worth mentioning. First, the figure of loss to be dealt with, although brought in to an excess profits levy computation, is the loss ascertained for income-tax purposes; this is quite logical since it is the non-payment of income-tax which in the main has to be allowed for. Secondly, the capital allowances to be dealt with are limited to those given on machinery and plant; no doubt this covers by far the greater part of all capital allowances, but it is a curious and apparently arbitrary restriction, since capital allowances on industrial buildings are carried forward in exactly the same way for income-tax purposes and call for exactly the same modification of the assumed burden of tax represented by the halving of profits under the rules of the Tenth Schedule. Thirdly, the reference in Rule 1 (2) (b) to capital allowances carried forward under Rule 6 (3) of Cases I and II of Schedule D does not restrict the benefit to annual allowances, as one might at first think, because by Section 55, Income Tax Act, 1945, all allowances, including initial allowances and balancing allowances, were assimilated to Rule 6 (3) of Cases I and II for carrying forward where necessary.

is rather puzzling, over-distributed Talbot in his

STOCK INVESTMENT CONTROL

By R. J. GIBBENS, F.C.W.A., A.M.I.I.A.

IN the first place I think we could usefully spend a few moments to consider what we really mean by 'stock' and 'control'.

'Stock', in my view, is material which has been delivered and which has been accepted, the cost of which has been paid, or is payable by the concern. It refers to all raw materials used in the manufacture of our products, ancillary materials for use in connection with production, work in progress of manufacture, general stores for use on repairs, maintenance and general factory purposes, bought-out finished parts and components, special contract materials and finished goods or products awaiting sale or delivery to customers.

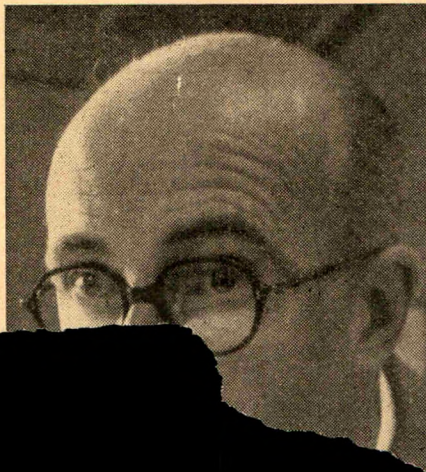
'Control' is defined in *Nuttall's Standard Dictionary* as 'Restraint, authority, command, means of controlling, mechanism that controls', which suggests to me the means and methods of governing either directly or without restraint.

Method of Control

The main difficulty is in deciding just what method of control should be used, and I think it is quite impossible to generalize as there is such a wide diversity in the various industries and trades, in customs, in methods of marketing, magnitude of business, modes of transport, importation, ex-

portation, credit arrangements and duration of manufacture and treatment, that each concern has to consider and decide for itself upon the method best suited to its own purposes.

As we are all well aware, the ideal situation would be one in which we could conduct the business with no 'investment' in stocks whatsoever, and I recall a lucrative manufacturing business of fair size which did in the past, and for considerable periods, function very satisfactorily without a penny piece being tied up in stocks. Generally speaking modern business is not so fortunate and ways and means of keeping investments at reasonable levels have to be



Cont

profits tax on distributions for periods up to December 31st, 1951, are only half the amount of the tax. This provision is for some reason relegated to an interpretation clause, Rule 4 of the Tenth Schedule, where it appears as a proviso to sub-paragraph (1). For later periods, profits tax on distributions is deducted in full, because from January 1st, 1952, it ceased to qualify for income-tax relief.

Adjustments for taxation borne or relieved

The deductions for taxation are logical enough, wanted the approximations on which they are based, but it is very easy to overlook that deductions for profits tax on distributions for periods up to December 31st, 1951, are only half the amount of the tax. This provision is for some reason relegated to an interpretation clause, Rule 4 of the Tenth Schedule, where it appears as a proviso to sub-paragraph (1). For later periods, profits tax on distributions is deducted in full, because from January 1st, 1952, it ceased to qualify for income-tax relief.

The incidence of income-tax and of profits tax on retained profits is, of course, reflected in the halving of profits and losses ascertained by the rules of the Tenth Schedule. Tax on profits arising after the relevant date may have been reduced, however, by reason of losses or capital allowances brought forward and credit is given for this type of relief by Rule 1 (2), once again in approximate fashion. Half the amount brought forward from any accounting period ending at or before the relevant date is brought to credit, limited to half the profits, computed according to the rules of the Tenth Schedule, of the accounting period for which undistributed or over-distributed profits are to be ascertained; any excess is carried

Losses of a post-1946 company

There is another relief which is connected with undistributed and profits. It was referred to by Mr J. E. paper at the summer course last year, but I apologise for mentioning it again, because I have yet come across it in practice and it will be interesting to hear whether the law is being strictly applied by the Inland Revenue. The relief deals with companies beginning after January 1st, 1947, and is contained in the proviso to Section 46 (2) of the Act. It says that if, in the period from the relevant date to December 31st, 1951, losses exceed profits, the result may be treated as nil in ascertaining the company's under-distributions or over-distributions for any period beginning with the relevant date and ending at any time after the end of 1951. Now under-distributions and over-distributions have to be ascertained to a date twelve months before the end of the chargeable period, so calculations for a period ending after the end of 1951 are only needed for a chargeable period ending after the end of 1952. It follows, therefore, that a net loss incurred by a post-1946 company between its relevant date and December 31st, 1951, will inflict the normal penalty on its standard for its first chargeable period, but will be treated as nil and inflict no penalty for all subsequent chargeable periods. It seems quite senseless, because obviously the intention is to help a new company which has incurred losses and it needs that help just as much in its first chargeable period as in later chargeable periods.

(To be concluded.)

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Control is Necessary

I feel that control of the amount invested in stock is very necessary in any business undertaking, whatever its size, more especially in these modern days of credit restrictions, fluctuating prices and short supply, than perhaps at any former time. Without control there is a tendency for the persons responsible for production, for example, to carry more stock than is necessary in their endeavour to avoid any hold up of production, which in itself is a matter of vital importance, but in doing so they are 'tying up' funds which cannot be used for other purposes.

If over-stocking is unchecked the amounts involved, particularly when there are several branches or departments holding 'that little bit extra' could not only place a very serious strain on the company's finances, but may also lead to serious losses if prices were to recede.

The reverse position could be equally serious in that factory production could be held up and plant rendered idle for lack of supplies. Also, when prices were on an upwards trend the opportunity to gain additional profits would be lost. In either circumstances it seems to me that the answer lies in intelligent control which includes flexibility.

A paper given at a meeting of the London Chapter of the Institute of Internal Auditors on September 9th, 1953.



Mr R. J. Gibbens, F.C.W.A., A.M.I.I.A.

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Level of Stocks

Before considering the particular method by which our investment will be controlled, decisions have to be made as to what the stock requirements of the business will be in relation to all its activities, and taking into account all the many and various vital factors which can effect the stocks position. In other words, we have to decide as to what levels of stocks shall be held. This involves 'planning' or 'budgeting' for some time ahead, possibly six or twelve months, or even longer, not only in respect of stock holdings, but for all activities of the business, which directly or indirectly affect stocks, such as sales, production, cash, maintenance, plant replacements, etc.

The formulation of the plans necessitate estimation of quantities of products which will be sold, manufactured and held in process of manufacture, and detailed consideration of delivery problems, price trends, etc. We are all only too well aware of the complications and complexities of making such estimates and in this connection I would emphasize the urgent necessity for co-operation between the executives in all their various functions and of

employing all available assistance from technical personnel, sales staffs, engineers, production staffs, etc., in building up the plans. Also, and I feel this to be vitally important, each departmental head should be in complete agreement with the ultimate plan for his particular section – not only will he be more co-operative at the planning stage, in the knowledge that his ultimate agreement will be sought, but he will also do his utmost to make sure that the planned programme is followed; as a result diversions will be minimized.

Plans must be Flexible

Unfortunately, the best of plans and estimates seem to have a very nasty habit of going wrong, and unforeseen circumstances do arise, such as unexpected price variations, temporary breakdown of plant and machinery, adverse weather conditions affecting transport and running of plants, industrial disputes, international relationships, the effects of new inventions, customer requirements, etc., any of which can easily upset the whole of the programme. The plans have, therefore, of necessity, to be flexible and will most assuredly require some amendments from time to time.

Stock Record System Essential

We will now assume for our purpose that after considering all the various factors, our plans have been prepared and agreed at all levels, and that the stock holdings for all commodities have been decided upon as regards minima and maxima quantities etc for regular period ends either daily, weekly, monthly, or perhaps quarterly. The question then arises as to how and where the predetermined levels are to be recorded and by what method they are to be compared with actual stocks carried.

The answer to these questions will depend to a large extent upon the size of the business and the volume of stock items, but the important thing to be borne in mind is the speed and facility with which diversions from plan can be brought to light enabling the necessary corrective action to be taken.

There are many ready-made recording systems on the market and according to the adverts one reads from time to time, they are all quite perfect and give results with the minimum efforts. If, however, one or other of these ready-mades are not entirely suitable, they can perhaps be modified to suit one's own purpose, or, alternatively, a tailor-made system will have to be evolved. In any case, some efficient stock record system will be essential together with some means of bringing variations from plan promptly to notice.

The most important point, in my view, is that the record is designed in such a manner that it is capable of being maintained *up to date* with the least possible effort. Several well-known methods of stock recording come to mind, which have been found eminently satisfactory in suitable circumstances, such as: visible records with signalling devices; punched card

machines; hand-sorted, punched cards; manual and machine stock ledgers; card systems.

Visual Control

I have already endeavoured to stress the importance of the up-to-dateness of the records and I have found in practice that however good the system may be there always seems to be some time lag which is invariably unavoidable, and as a result I have come to the conclusion that quite efficient control, at least on the physical side, can be attained by systematic stowage of the material, whether it be 'tin-tacks' or 'railway tunnels'.

What I am driving at is 'visual control' of stocks with all materials pre-counted or measured or weighed and stowed in consistent units within predetermined limited space enabling the assessment of stock by little more than the merest glance, assisted possibly by colour schemes to indicate predetermined minimum, ordering and maximum levels.

In such circumstances, the desired information is automatically up to date and the true position of the physical stock is there for all to see. The amounts invested are not, of course, apparent from this source, nor are totals available for value or quantities, but I do feel that the all-important information on the state of the physical stock is promptly spot-lighted at the time when corrective action can and must be taken.

The financial aspect virtually follows the physical side and I feel that the control of the quantities of actual stocks in this manner provides the most speedy source of information to management and enables them to exercise a very practical control. Additional costs of such systematic storage is fairly expensive initially, but in the long run, with properly 'schooled' personnel engaged on the work, ultimate economy with real 'control' results. The limitation of storage space may sound a little drastic and in some circumstances be very inadvisable, but with due care in deciding the limits and given provision for 'spare' or 'wholesale' storage it is well worthy of serious consideration to ensure that overstocking cannot take place.

Whatever methods or systems may be decided I have come to the conclusion that in order to efficiently control our investments in stock it is necessary for us to:

- (a) know the amount invested at any given time;
- (b) know the amount intended or planned to be invested at that time;
- (c) have an efficient method of promptly reporting variations from plan, and
- (d) ensure prompt suitable action upon the reports.

Classification of Stocks

The detail involved in implementing the control will naturally vary in many ways and where the volume of detail is great it will probably be found advantageous to sectionalize or classify the various

stocks into groups of reasonable size in order to organize the clerical work over the available staff, each group being separately controlled to ensure accuracy. Top management will possibly be more interested in the group or class variations whilst the detailed variations within the groups can be handled at lower levels. The point I am trying to make here is that the larger and more important overall variations need more urgent treatment at higher levels than the lesser ones which can often be more easily and speedily rectified. Reports of all variations should be made at the earliest possible moment in each section and the sections summarized into a complete statement as frequently as considered necessary or desirable and immediate action taken to rectify the position.

Assistance from Internal Auditors

I have mentioned a few points and touched upon some facets of problems connected with stock investment control, as I see them, which, although familiar to most of you, are perhaps worthy of repetition. The question now arises: 'In which way can we, as internal auditors, be of service to management in this important matter?' I submit that we could assist in the following ways:

- (1) Evolve a method of control which would be suitable to the particular concern.
- (2) Assist in the determination of the practical

levels of stock necessary to efficiently run the business.

- (3) Systematically examine the records and make recommendations in the light of changing conditions, as to further economies, improved efficiency and variations to plans.

Ensuring Reasonable Levels of Investment

Finally, and I think more importantly, what can we do to ensure that the investment remains at reasonable levels?

So much depends upon the set-up of the particular organization and the scope of the particular job, but I feel that by carrying out the following procedure we shall go a long way towards achieving the desired results:

- (1) Continually examine the planned levels in the light of current conditions and practice.
- (2) Carefully investigate reasons for slow movement of stocks or redundancy.
- (3) Consider effects of price variations.
- (4) Examine variation reports and check efficiency of system.
- (5) Produce action provoking reports to management.

There are many other problems connected with the subject and no doubt many other ways in which the internal auditor can be of real assistance to management.

WEEKLY NOTES

The Formal Principles of Company Accounting

In a research lecture delivered at the Incorporated Accountants Hall on October 19th, Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting, re-examined the general characteristics of public company accounts as matters of form. In his opinion, there are three serviceable ideas associated with the description of economic activity which are relevant to accounting. The first, that of a continuous flow of goods and services and of financial incomings and outgoings through time. The second, that of changes in stocks of possessions over time. The third, that of stocks of possessions and financial claims at a moment of time.

Mr Sewell Bray then suggested a plan of accounts set to this framework of economic activity:

A profit and loss account (the 'flow' account) designed to reveal the operating profit, exceptional transactions, total income, transfers out of that income (such as taxation and dividends) and the retained income of the period.

An account for sources, earmarkings and utilization of funds (the 'capital change' account), Part I of which should be designed to reveal appropriations of retained income, adjustments relating to past years, withdrawals from reserves, and the reported increase in undistributed income; Part II should

reveal capital changes, the saving of the period, depreciation and gross asset formation, changes in money capital and long-term claims, capital gains and losses and the reconciling changes in current claims and monetary balances, provisions and deferred liabilities.

A balance sheet (the 'stock' account) designed to show, *inter alia*, price change adjustments (subdivided between depreciation and inventories and grouped with capital and reserves), and a division of inventories between standard inventories (shown with fixed assets) and excess over standard (grouped with current asset claims).

In Professor Sewell Bray's opinion, the capital change account is important for a company's proper understanding of its own affairs, e.g. to indicate financial limits on *real* investment or the financial implications of changing tax reserves. It also serves such factual inquiries over a wide area, as seek to provide information for the implementation of reasonable fiscal policies. 'I shall continue to press for its permanent place in public company accounting,' he concluded.

A Prosperous Fund

The report and accounts for the year ended April 5th, 1953, of the committee of management of the National Coal Board staff superannuation schemes have just become available. They record another

year of considerable expansion both in the total numbers of contributory members and in the funds accumulated for investment. These increases are mainly due to the widening of eligibility for membership and to the incorporation in the main fund of pension schemes taken over by the Board when the industry was nationalized. At the date of the chairman's report, 81,000 members were contributing for the usual retirement and other benefits on their own account and 14,500 for widows' pensions and dependent children's allowances. The corresponding figures at April 5th, 1952, were 64,000 and 4,800. In the year to April 5th, 1953, the total fund grew from £24 million to £34 million, more than half of which is invested with central and local government authorities. Debentures account for another 13.56 per cent and industrial preference and ordinary stocks for 22.67 per cent.

The total income for the year was £9,865,874, made up of contributions from members of £8,743,985 and investment and other income of £1,121,889. Normal and family benefits paid out amounted to £1,139,766. It is expected that, on present income and expenditure levels, the annual accretion to the fund will be about £8 million. An actuarial valuation as at April 5th, 1953, is now in progress and should be completed early next year. The report and accounts, together with a statement by the chairman, Sir Eric Coates, run to thirty-two pages and are admirably documented and illustrated with pictograms.

A Fuel Efficiency Company

The debates in the House of Commons on Monday on the annual reports of the nationalized industries ranged over a variety of topics and had, what is in this context, a commendable freedom from party politics. On coal, the Minister was able to say that production has been improving compared with this time last year and, aided by mild autumn weather, stocks are reasonably above the danger level. Other points on coal were the prospect of an improvement in the rate of capital investment, which up until 1953 has been woefully below the target rate, and the decision of the National Coal Board to look over its organization and, among other things, increase the degree of responsibility at pit and area level.

There was a little, if only a little, news about atomic power stations. It is expected that the Calder Hall establishment in Cumberland and the new breeder reactor will provide about 50,000 kw. a year. Quite apart from the debate, rumour persists that Scotland will soon provide the site for the first commercial atomic power plant.

One of the interesting pieces of information in the debate was the Minister's announcement of a non-profit-earning company to provide increased fuel efficiency advisory services. In providing general advice and giving assistance in obtaining the economical use of fuel, heat and power, the new company will take over progressively and extend the work at present being done by the Ministry of Fuel in that field.

Sir Leslie Hollinghurst has been nominated as chairman of the new company which will be called National Industrial Fuel Efficiency Service. The British Productivity Council has nominated the following as directors: Sir Patrick J. Dollan, Sir John Hacking, Sir Edward Herbert, Mr Leslie A. W. Jenkins, Mr Henry F. H. Jones, Mr E. Julian Pode and Mr Jack Tanner.

Pressure on Purchase Tax

A campaign to abolish purchase tax on textiles is to be launched on behalf of seventeen textile organizations. This decision has come out of a joint meeting of leaders of trade associations covering all sections of the industry except wool. It is quite clear that a concerted attack on purchase tax is to be made by trade and industry to come to a head at the time when the Chancellor of the Exchequer prepares his budget for next April.

Purchase tax, as it exists now, is no more than an administrative and fiscal convenience. As an administrative convenience it has been modified, adjusted, and chipped away here and there in response to pressure from trade and industry on the one hand, and what are considered in the official view to be the needs of economic policy on the other. In consequence, it now bristles with anomalies and it is the anomalies which give the prima facie case for reforming and perhaps abolishing the tax. The more basic reason for drastic change is the widely-held opinion in all quarters that the tax is bad in principle, and that a more simple, equitable impost could be devised which would fall at the point of sale to the general public, rather than at the wholesale level. But it is here, where reform means changing the method of calculating the tax on turnover, that divergent opinion becomes apparent within trade and industry itself.

Complicated as changes may be to introduce in the existing tax, the greatest difficulty of all in the way of reform is the fact that the tax brings in revenue at a time when retail sales are booming and the economy in the official view is set fair. There is no urgency at such times to stimulate consumer demand. Official thinking is about at this stage at the moment, and under these circumstances the Exchequer point of view tends to be based very much on traditional lines. If the Treasury is persuaded that no new initiative is required in economic policy, the view tends to predominate that no tax remissions should be accepted without a corresponding amount of revenue being raised in some other way – unless a useful fall in the overall expenditure of the Government can be foreseen.

Lower Local Loan Rates

The rates charged by the Public Works Loan Board to local authorities for loans were modified as from Tuesday of last week. Loans up to five years now cost $2\frac{1}{2}$ per cent; from five to fifteen years $3\frac{1}{2}$ per

cent; and for periods over fifteen years 4 per cent. These rates compare with $2\frac{1}{2}$, $3\frac{1}{2}$ and $4\frac{1}{2}$ per cent respectively.

Pause in Prices

By coincidence, the latest available information about the level of the cost of living and that of basic raw materials shows them to be stable. The official retail index has not moved since March; basic raw materials prices in September were unchanged on the previous month. There is clearly a lull of some sort taking place.

The useful decline in raw materials prices which has been going on for several months would normally have had an effect on retail prices before now but the removal of food subsidies and the pressure of higher wages has kept retail prices up. Between March and September, however, the retail index has

clearly benefited to some extent from the fall in world commodity and materials prices. This decline must have played a part in keeping retail prices in check. But now the basic materials prices index has stopped falling and the question arises whether a modest rise in such prices would be quickly imparted to the cost of living. Probably it would. The benefit of falling world prices should have been felt on retail prices this summer for among other things it would have helped to keep wage costs down, since many workers have their wage rates tied to the cost-of-living index. This opportunity to chip costs and so improve this country's export position by giving its goods a better competitive edge has not been taken. A further fall in commodity prices could now probably be passed on to the cost-of-living index fairly quickly – but it is by no means certain that the world price level will move in a way to bring this about.

FINANCE AND COMMERCE

Stock-markets are at present dominated by the offer of ordinary shares in The United Steel Companies Ltd, the first of the denationalized steel concerns to offer its equity to public investors. Lists for the offer do not close until November 9th. Generally, the undertone of markets keeps firm.

Burton's Recovery

In the 1953 accounts of Montague Burton Ltd, which we reprint this week, this multiple tailoring company is able to show some recovery from the disastrous effects of the boom and subsequent slump in wool prices. There is a profit in the holding company of £167,029 following the previous loss of over £600,000 calculated after taking £1 million from general reserve against loss on forward commitments. The remaining £500,000 of the reserve has now been taken to stock contingencies as further provision for possible stock losses.

The main feature of the accounts is the reduction in the stock position and in the debt to bankers. Even at their present level of £10½ million, however, the company's stocks, says the chairman, 'still present us with difficult realization problems'.

The company's past difficulties were accentuated by the death of its founder, the late Sir Montague Burton. Since the close of the year under review, Burtons have purchased the ordinary capital of Jackson the Tailor Ltd, and thus secured not only a profitable and expanding trade investment but also the benefit of that company's successful management. Mr Lionel Jacobson, Jackson's chairman, has become Burton's managing director.

Splitting the £

The directors of the Neepsend Steel & Tool Corporation Ltd present shareholders with the now familiar segmented circle to show 'how every £1 sterling of sales was distributed during the year

1952-53'. The size of the segments shows what proportion of sales went in the various ways. The story is then retold in plain words and figures as follows:

	Per cent	Per £1 of Sales £ s d
Purchases, including materials, finished articles, services, etc.	65.04	13 0
Maintenance and depreciation of buildings, plant and equipment	2.23	5½
Wages, salaries, bonuses, national insurance, etc.	15.03	3 0
Rates and taxes	10.11	2 0½
Dividends paid to stock/share- holders	2.41	5½
Retained in the business	5.18	1 0½
	100%	£1 0 0

From this, it would seem to be only a matter of simple arithmetic to translate the £ of sales and the percentages into gross sales etc. via the figures in the actual accounts: 5½d is to £1 of sales as the amount shown in the accounts as paid in dividends is to total sales. Why not then take the thing to its logical conclusion and build up the accounts from the sales total?

Facsimile Signature

We noted last June the putting of a personal touch into an auditor's certificate by making the report in the form of a reproduced typewritten letter from the auditors to shareholders with a facsimile of their signature. Although this is quite a common practice with American companies, it was an innovation here and we had the assurance of the company's secretary that it had received the approval of the Institute.

Messrs Moore, Stephens & Co, Chartered Accountants, the auditors concerned, have, we notice, now extended this method of reporting to the accounts of another of their clients, S. Schneiders & Son Ltd, clothing manufacturers. The firm's signature is by a different hand but the style of the report is the same.

The auditor's report in both cases is given a full page in the report and accounts and carries an air of distinction and importance which is missing from the few printed lines one normally sees at the foot of a company balance sheet.

Technicolour Bar

Word-coining has its pitfalls. In all innocence we tried to give an impression of vividness of colour in our description of the pictures in colour which are part of the report and accounts of Sir John Hulett & Sons Ltd, by coining an adjective - 'technicolour'. We can hardly believe that our readers were misled into thinking that we were describing a cinema film, yet it is pointed out to us by Mr A. Allen, the secretary of Technicolor Ltd, that the word 'Technicolor' is the registered trade-mark of the Technicolor Motion Picture Corporation of Hollywood, California, and that his company is its registered user.

By the use of quotation marks, we hoped it would

be seen that the word was used out of its usual context which is, of course, the 'Colour by Technicolor' one sees at the cinema.

Mr Allen asks us to ensure that where reference is made to his company's products, the name of the film in question is followed by the words 'Colour by Technicolor'. As it happens, we write about company accounts and not films so the point is hardly likely to arise.

Owners of registered trade-marks very properly do their utmost to protect them from wrongful application, but it is very difficult to keep a word in confinement once it begins to become part of a language.

Money Market

Treasury Bill applications totalled £353,170,000 on October 23rd and bidding at £99 9s 6d the market obtained 55 per cent of requirements. The average rate was £2 1s 11.67d per cent. This week the offer is held at £240 million.

MONTAGUE BURTON LIMITED AND SUBSIDIARIES Statement showing Movement of Reserves for the year ended March 31st, 1953

STATEMENT 'A'

Capital Reserves									

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Accounting Research into Retail Trade

SIR, — Why is it that much, indeed most, of present-day thought and literature on costing, budgetary control and management, relates to manufacturing industry? The retail and distributive trades have many problems requiring as much attention as the factories and production centres receive.

As an example, it is comparatively easy for the owner of a single retail shop to record what he has sold, and to replace his stocks. But multiply this for ten, fifty or 100 shops, and there is a major accounting and statistical problem — to record sales in sufficient detail to enable a central buying policy to function; add to this the problem of allocating merchandise in short supply to branches in relation to their selling capacity for that style of merchandise; here is a field for research as yet almost untouched.

Likewise, the comparative costs of accounting at the branches or in a centralized unit, warehousing or direct delivery by suppliers, the difficulties of retail stock control, remuneration of staff, integrated cost and financial accounts, are all matters on which the retailer needs, and should have, the benefit of the best brains in the profession.

If Britain is a nation of shopkeepers, let those engaged on accountancy research recognize the fact when planning the scope of their future investigations.

Yours faithfully,

D. M. MILSTONE, A.C.A.

Wembley Park, Middx.

Stamps on Receipts

SIR, — The letter from your correspondent, Mr Donald Barber (October 10th issue) has reminded me of a letter received from a firm which contained the following paragraphs:

'It has been our practice to issue a receipt for each remittance made against our accounts.

'We are of the opinion that the receipt does not serve any useful purpose in the accounting systems of the majority of firms, and that we could, without causing any inconvenience to our customers, dispense with this document, thereby saving us the expense of issue and you of handling.

'If you require receipts for the convenient working of your internal procedure will you please ask us to continue them, when we will gladly satisfy your request.

'Unless we receive such a request from you we propose to discontinue the issue of receipts to you forthwith.'

Yours faithfully,

O. BIRLEY,

Chief Accountant.

THE LIMMER & TRINIDAD LAKE
ASPHALT COMPANY LTD.

London, SW1.

'Management Accounting: the Cash Forecast'

SIR, — I was interested to read both Mr Liddington's article (September 19th issue) and Mr Metcalfe's letter (October 3rd issue) on the above subject. The examples of cash forecasts shown by both contributors are similar as regards basic principle but different in form; Mr Liddington concentrates on details of forecasted capital expenditure whereas Mr Metcalfe prefers to show the movement in working capital requirements supported by a separate forecast of capital expenditure.

I favour the latter method, but I think that the figures could be presented in even simpler form. I have used Mr Metcalfe's figures in the following example, but I think that his figure of forecasted profit should have read £160,000 if the addition of £20,000 depreciation were to give a cash surplus of £180,000.

CASH FORECAST

Twelve months to December 31st, 1953

Forecast profit for year after charging depreciation, but before taxation	£	160,000
Add Depreciation		20,000
		£180,000
Deduct Capital expenditure (per forecast on the lines of Mr Liddington's example)	£	150,000
Taxation payments		100,000
Dividends		50,000
Working capital requirements:		
Debtors	£50,000	
Stocks	50,000	
Current liabilities	40,000	
		60,000
Net cash surplus/deficit for year		360,000
Cash balance at January 1st, 1953		180,000
		150,000
Estimated overdraft at December 31st, 1953		£30,000

This form of cash forecast can be carried a stage further; that is, the preparation of a forecast balance sheet so that the assets and liabilities at the end of the period under review can be compared with the actual position at the date of the forecast.

Yours faithfully,

Dublin, C8.

F. P. GUILBRIDE.

Autumnal Meetings

SIR, — In your issue of October 24th, Mr Allcoat considers it an advantage that 'everyone should be together' and suggests a small liner better to achieve his purpose.

I venture, politely, to disagree.

A little experience prompts me to assert that small liners are not conducive to good temper.

Yours faithfully,

Blackheath, SE3.

GUY NEELY.

Accountants' Christian Fellowship

SIR, - As a result of the correspondence on this subject which you were kind enough to publish, the number of people who have written to express their interest is now over one hundred and twenty.

A meeting for the purpose of electing a chairman and officers and the formulation of general policy has been arranged for Friday, November 27th next, at 5.30 p.m. at The Bible House, 146 Queen Victoria Street, London, EC4.

Perhaps I should add that the main entrance of The Bible House is closed at 6 p.m. and admission can only be obtained by the back entrance after that time.

I do hope that as many of your readers that can possibly do so will be present, whether they have already written to me or not.

Yours faithfully,

BRUCE JONES.

Wembley Park, Middlesex.

Soft Drinks Factory: Costing System

SIR, - I would be very glad if you could allow space in your columns for me to ask if any reader is able to tell me where I can find a fully described costing system for a mineral-water factory. I wish to install an efficient system in two businesses - one manufacturing various drinks in various sizes and also purchasing, from suppliers, bottled drinks such as cider, for resale; the other only manufacturing one drink in three sizes. In each case the products are distributed to customers by road, and calculating transport costs per dozen bottles is a difficult problem. Transport costs are not the sole problem, of course, and I am anxious to obtain a complete system.

Yours faithfully,

SQUASH.

Attitude Surveys in Industry

SIR, - The necessarily brief comment in your issue of September 12th ['Weekly Notes', p. 312] on the attitude surveys carried out by this Institute may possibly create some misunderstanding, and I shall therefore be grateful if you will allow me to add a little to what you have written. The object of these surveys is not to encourage people to air grievances, although it is true that the opportunity to voice a grievance very frequently has a therapeutic value, and the opening up of communications which can be achieved by such a survey is valuable in itself. The object is to discover what employees think of their jobs from every point of view, so that the management may be given indications of steps which should be taken to improve conditions.

The comments of the employees are by no means all complaints and grievances; in the normal firm there are numerous expressions of appreciation, and there are always many constructive proposals for changes, not all of which are directly concerned with the workers' welfare, since they cover questions of

efficiency of operation of the organization. The investigator sets out all the different comments he has received, so that they can be brought individually to the notice of the management. He makes no attempt to check the accuracy of each statement which has been made, since the fact that it has been made is itself important, and the management should consider each remark and take appropriate action on it.

Grievances can be considered as symptoms, and it is not sufficient to treat symptoms alone. Consequently, the investigator has to attempt a diagnosis of the underlying causes of the situation as it is revealed by the workers' comments. In reaching his conclusions he cannot, of course, accept opinions at their face value, but he must discover whether the facts of the situation are those suggested by his analysis of the remarks. His diagnosis will point to probable weaknesses in organization, policy and practice which demand management's attention, and this is perhaps the most valuable aspect of the procedure.

Yours faithfully,

C. B. FRISBY,

Director,

NATIONAL INSTITUTE OF
INDUSTRIAL PSYCHOLOGY.

London, W1.

Taxation of Doctors: Danckwerts Award

SIR, - The problem raised by 'C.A.' (October 24th issue) of the taxation of sums paid to doctors under the Danckwerts award, is only one special example of the general difficulty, more apparent in the case of new businesses, of explaining to clients the difference between notional profits on which income-tax assessments are raised and the actual profit earned in the years of assessment.

The Danckwerts award is apportionable over the respective financial years in which it was earned and added to the profit for these years. However, as the illustration showed, the award (£2,500) covered a period of 2½ years although it was brought into the computation of assessments (£3,500) in respect of 3½ income-tax years. Clearly if, as stated by 'C.A.', no advantage is gained by claiming under Section 129 of Income Tax Act, 1952, profits must be rising and therefore it could be pointed out to the client that the assessments for the years 1952-3 and 1953-4 were below *actual* profits earned in these years, although this benefit is now relatively reduced by the additional income in the first year which is the basis for three assessments. If the practice had terminated in June 1952, only the £2,500 received would have been taxed.

The position can only be assessed as a whole, and although additional assessments are raised because of the award, difficulty is created by attempting to compute the liability on the award separately.

Yours faithfully,

STUART M. LEVER, M.A., A.C.A.

London, EC2.

TAXATION CONFERENCE

HIGHLY SUCCESSFUL THIRD ANNUAL EVENT AT BOURNEMOUTH

The record attendance of nearly eleven hundred augured well for the success of the third annual conference organized by our contemporary *Taxation* at Bournemouth last week-end.

The addresses and proceedings at the business sessions were of the high standard set at the previous conferences and the efficient organization which was apparent throughout the conference, coupled with the almost exceptionally fine weather for this time of the year, played no insignificant part in ensuring yet another success.

Inaugural Address

The conference commenced on Friday, October 23rd, with the opening address of Mr Ronald Staples, Founder-Editor of *Taxation*, in which he extended a warm welcome to those present, many of whom had taken long journeys in order to attend. There were, he said,

'... not only readers from all parts of Great Britain and Ireland, but visitors from Denmark, Hong Kong, Cyprus, Belgium and Egypt'.

He continued:

'It gives us great pleasure also to find so many representatives of the Inland Revenue department amongst us, and I would like to say at this stage how much we appreciate the ready co-operation of the Board of Inland Revenue in permitting high officials of the department to take part in our deliberations.

'Industry also is directly represented here in a big way. One of my assistants took it upon himself to calculate the aggregate capital of the leading companies who have sent their own financial executives here and I find it far exceeds £200 million. The capital represented by the professional members of this audience must reach many hundreds of millions.' (Laughter.)

Taxation Diploma

Mr Staples referred to the panel of distinguished speakers and chairmen which had been assembled for the conference, and then turning to professional matters, he went on:

'We believe that there exists today no adequate test of a practitioner's ability in the sphere of taxation. Of necessity the examinations of the professional bodies, while covering to a limited extent this most vital and specialized subject of taxation, nevertheless cannot provide a test which gives the hall-mark of the master of this subject. We propose to conduct a three-day examination in various parts of the country which will without question provide this test, and we believe that practitioners will welcome such a step. The *Taxation* Diploma, which will be awarded to successful candidates, is intended to be the "blue riband" of taxation practice, and we feel that a candidate for a taxation post may be regarded as adequately fitted technically if he holds that diploma and may be accepted without hesitation as a master of taxation. We believe, too, that many practitioners will desire to hold the Diploma if only to satisfy themselves that their knowledge is adequate and up to date. The first examination will be held in November 1954.

Initial Allowances

'It is pleasing to note that the national and international situations today are somewhat less disturbing than they

were at the times of our previous conferences. Yet industry and commerce have received but little encouragement from the Exchequer. Through the inability of trading companies to plough back into their businesses sufficient of their incomes to meet their needs for expansion, and indeed to successfully carry on their accustomed organizations, industry has become impoverished. The needs of defence are tremendous and terrible, but I do believe that some substantial relief to industry would amply repay the Chancellor of the Exchequer. I feel that one of the most promising fields where this can be given is in regard to the wear and tear of plant and machinery. If the recommendations of the Millard Tucker Committee on the Taxation of Trading Profits were adopted in relation to initial allowances, it would be a material encouragement to industrialists to renew obsolete plant and machinery. Such renewal is essential to recovery and would help our industrialists to meet those of other countries on more equal terms. It will be remembered that in the Income Tax Act, 1945, an initial allowance of 20 per cent was made, and that this was increased under the Finance Act, 1949, to 40 per cent. Unfortunately, the Finance Act of 1952 repealed the initial allowance and the 1953 Act restored it only to the extent of 20 per cent. It is to be hoped that the Chancellor of the Exchequer will see his way to increase this allowance to at least 40 per cent in the next Finance Act.

Investments in Government Securities may reduce taxation burden

'I believe that seldom, if ever, has so large a body of people met together in conference enjoying such a wide influence in an advisory capacity in relation to the investing of the taxpayer's money. The advisers to the local tradesmen, no less than the accountancy and legal advisers to great industrial companies, are in a position to influence the wise investment of what savings their clients can retain. I think it our duty to recall here that, used in the right way, that body of advisory ability might well make possible a reduction in the burden of taxation. I am convinced that we can serve the taxpayer in this regard if we bear in mind throughout the year that money invested in Government securities can have no effect other than to lessen the pressure on the taxpayer's pocket. In looking to the Chancellor of the Exchequer to relieve industry, let us all do our part in the way I have indicated to make it more easy for him to do so.'

Welcome by the Mayor

Mr Staples concluded his address with a tribute to the town of Bournemouth which, he said, was 'famed throughout the land as one of the most beautiful of British watering places'.

The Mayor of Bournemouth, Councillor H. P. E. Mears, O.B.E., then extended a civic welcome to the Conference.

Taxation of Farming Profits

The first business session was presided over by Mr H. J. Bicker, J.P., F.S.A.A., and was addressed by Mr E. A. Bell, M.A., B.Sc.(ACR.), B.Sc.(FOR.), F.A.C.C.A., on the subject of 'Taxation of farming profits'.

Mr Bell stressed that farming was an extremely diverse industry embracing such widely different things as dairy farming in Dumfriesshire, growing seed potatoes in

Perthshire and sheep-breeding in Sutherland. Just as there were general principles of book-keeping applicable to all, so there were general principles of taxation, but, nevertheless, each individual case had its own problems and must be dealt with on its merits.

The speaker traced the history of farming taxation since 1799 and observed that although in former times farmers had enjoyed favourable treatment, an important consequence had been that our land had been kept in good heart for the enormous demands to be made on it in two world wars. He showed that the step taken in 1941 of putting some of the bigger farmers on Schedule D instead of Schedule B was foreshadowed by the Royal Commission report of 1920. The Commission's recommendation had perhaps not been implemented because of the depression in the inter-war years. The ways in which the perhaps anomalous tax position of the farmer was put to good advantage by individuals were many, and the speaker gave an interesting account of them. Even now, under Schedule D, the farmer could so arrange his policy as greatly to minimize his tax liability. He could grow crops which bring comparatively little cash but which are extremely kind to the soil; he can conserve the value of his herds by retaining the best animals and selling the others.

Another consequence of the change in taxation law was, in the speaker's view, social rather than financial. The 'common purse' system followed by farming families in Scotland, under which all receipts broadly speaking went into a common fund on which all the family could draw for certain conventional purposes, was being replaced by formal partnerships and arrangements under which the farmer's wife and family received their individual wages. By and large this change was for the better. A third consequence of the change was a falling off in the practice of exchanging commodities instead of selling and buying for cash.

Special Schedule D Rules for Farming

Mr Bell pointed out that although farming was now within Schedule D, tax law still applied special rules to it in a number of instances. In the first place all farming carried on by one person or partnership was one trade and consequently there was no question of succession when a farmer went from a small farm to a bigger farm or vice versa, or when he took over an additional farm from someone else. The assessment continued to be based on the preceding year's profit.

Another significant difference lay in the unusually generous capital allowances for agricultural capital expenditure, allowances that ran with the land rather than with the individual taxpayer.

The speaker dealt finally with the various ways in which practical use could be made of properly drawn-up farm accounts. His address was supplemented by some printed specimen figures which members of his audience were supplied with. After the close of his address he answered a number of questions.

Cocktail Party

In the evening members of the conference and their ladies attended a cocktail party given by the Editor of *Taxation* in the Pavilion Ballroom.

Mock Computation Interview

On the morning of Saturday, October 24th, members of the conference were both diverted and instructed by a most ingeniously staged representation of an interview in the office of an Inspector of Taxes, at which the tax computation of a large company was agreed. Nothing was wanting in authenticity; the familiar official furniture was there and the part of the Inspector was played by Mr H. A. Bradford, A.S.A.A., who is a Principal Inspector. Mr Percy F. Hughes, A.S.A.A., played the part of an accountant

representing the taxpaying company, and Mr H. M. Whalley appeared as a director. The audience had been supplied with the figures which were being discussed and as the computation proceeded the agreed adjustments were chalked up on a blackboard by Mr J. M. Cooper, A.A.C.C.A., A.C.I.S.

It would be difficult to imagine a more effective way of instructing tax practitioners in the practical problems of negotiating liability in complicated cases, particularly when opportunity is taken, as happened, of introducing some humorous touches into what must inevitably be a somewhat dull and difficult subject. The organizers of the conference are indeed to be congratulated on a brilliant idea ably carried out.

Back Duty: Penalty Sections

In the afternoon of the same day, Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., J.P., F.C.A., took the chair when an address was given by Mr Roy Borneman, Q.C., on back duty penalty sections.

Mr Borneman startled his hearers by observing that probably everyone of them must at some time have infringed one of the penalty sections of the Income Tax Acts and thereby become liable to fantastic penalties. He went on to explain that there were over sixty such sections and liability was sometimes compatible with innocence. The amount of the pecuniary penalties was fixed very high but of course, the Crown had power to mitigate their full rigour and this power was almost invariably exercised, to a greater or less degree depending on the individual case.

Pecuniary penalties were not the whole story, however. If the Crown wanted to punish income-tax offenders by imprisonment, it normally proceeded either under Section 5 of the Perjury Act, 1911, or on the charge of a common law conspiracy to defraud. Section 5 of the Perjury Act makes it an offence for a person knowingly to make a false statement in a declaration or return which he is required or authorized to make under a general Act of Parliament. Liability under Section 1 arose only where the false statement was made in the course of a judicial proceeding. An appeal before Commissioners was a judicial proceeding for this purpose but it was not often that liability of this kind arose. For a conspiracy to defraud the Revenue there must of course be at least two people involved.

It was true that the Income Tax Act, 1952, itself provided for imprisonment, that is by Section 505, but as the maximum term under that section was only six months, the section was not much used. Section 43 of the Act also provided for imprisonment in certain circumstances, but only where an Inspector had made a surcharge and the speaker did not think that any surcharge had been made for the last quarter of a century; there was no need for surcharges as the Inspector had other remedies.

Pecuniary Penalties

Remedies in a criminal court were rarely pursued by the Revenue. Perhaps 999 out of every 1,000 back duty cases were dealt with by the Inspector of Taxes or by the Inquiry Branch and the thing was settled by the payment of money. Considering that the normal penalty was £20 plus treble the tax chargeable on all sources of income, and that often penalties were incurred under two or more separate sections simultaneously, the figure of total possible penalties soon became astronomical. The figure was in fact so large that in most cases its precise amount was perhaps academic.

Neglect to Make a Correct Return

There was only one penalty section in the Income Tax Acts which imposed a penalty for an innocent misrepresentation or neglect; it was Section 25 of the 1952 Act, formerly Section 107 of the 1918 Act, which imposed a penalty for neglect or refusal to deliver within time a true and correct return. The penalty was £20 and treble the tax chargeable, but it did not arise unless the taxpayer had received a notice

to make a return. This was the section on which the speaker relied when he said that probably everyone had incurred penalties, for it was almost impossible to say that all one's returns were correct to the last farthing. The penalty was also incurred if no return at all had been made within the time limit. The section was wide enough to cover the common omission of bank interest or war loan interest, however innocent.

The remaining penalty sections were nearly all based on fraud or false representations. They were cumulative in effect and the Crown was not obliged to pick on one or the other and say, 'We rely on that'.

Procedure for Recovery of Penalties

Mr Borneman sketched the procedure for recovering penalties. Proceedings could only be started by an order of the Commissioners of Inland Revenue. Since the Crown Proceedings Act, 1947, the Crown could themselves appear on the writ and it was their practice to do so. Writs were sometimes issued because there was delay in reaching a settlement out of court.

Time Limit for Recovery of Penalties

Dealing with the time within which the Revenue has to start proceedings, the speaker referred to Section 501 of the 1952 Act which permits proceedings within six years after the date on which the penalty was incurred. That date, of course, depended on the circumstances of the case; normally, of course, it was when the return was made. Where there was fraud or wilful default the time limit was extended to three years after the assessment in question was finally settled, with an exception in favour of the personal representatives of a deceased defaulter.

Both the Inland Revenue and the Treasury had power to mitigate those astronomical penalties but Mr Borneman knew of no case where the Treasury had mitigated after the Revenue had refused to do so.

After his address he dealt with a number of questions. Both speaker and chairman received a hearty vote of thanks.

Preparing Britain's Budget

After Mr Borneman's address, Mr I. J. Pitman, M.A., M.P., took the chair and an address was given by the Rt. Hon. W. Glenvil Hall, P.C., M.P., on 'Preparing Britain's Budget'. In a stimulating and lively speech he threw a good deal of light into the dark corners of our constitutional practice in relation to the authorizing of State taxation and expenditure, and showed how a democratic control was maintained over these two things which directly affect the lives of everyone.

He explained why it was that all the new taxation for the year is embodied in one Act, the annual Finance Act, and what lies behind the feverish rush of the supply days in the House of Commons each spring, and the significance of the sittings of the House as a Committee of Ways and Means. He added some interesting details of just how the Chancellor of the Exchequer arrives at his Budget, how he conveys it to his Cabinet colleagues and how it is steered through the House of Commons. He also explained why there has to be a Consolidated Fund Bill and an Appropriations Bill each year.

Civic Reception and Dance

Conference members and their ladies were entertained on Saturday evening at a civic reception and dance given in the Pavilion Ballroom by the Mayor and Mayoress of Bournemouth. This occasion was an exceptionally enjoyable one; dancing extended from 8.30 p.m. until midnight.

On Sunday the visitors were invited to attend morning prayer at the Parish Church of St Peter's,

where the service was conducted by the Rev. Canon A. L. E. Williams, Vicar and Rural Dean of Bournemouth. It was interesting to note that Gladstone and Keble were among the many famous people who have worshipped in this church since it was founded a little over a century ago.

Golf Competition

The eighteen-hole medal round golf competition for the *Taxation* Challenge Cup was played over the Parkstone Golf Course on Sunday and was won by Mr E. K. Govett, A.S.A.A., of Poole, Dorset.

The Valuation of Shares for Death Duty Purposes

On the morning of the last day of the conference, Mr J. N. Grange-Bennett, M.A., took the chair and an address was given by Mr P. J. Bacon, O.B.E., LL.B., on the valuation of shares for death duty purposes. Mr Bacon is a chief examiner in the Estate Duty Office, and at once showed a complete mastery of his subject.

He began by pointing out that the enormous increase in rates of estate duty since 1894, combined with the wide margins where the effective rate on increases is 100 per cent, had made the task of valuation much harder because so much more was at stake.

He stressed that Section 7 (5) of the 1894 Act provided that the value of a share was what it was worth in the opinion of the Commissioners of Inland Revenue. However expert the valuer employed by the taxpayer might be, the Commissioners could not delegate their authority to him. The valuation involved the hypothesis of two reasonable men, the one willing but not anxious to sell, the other willing but not anxious to buy.

A good guide was the quoted Stock Exchange figure for shares of the type which fell to be valued. But difficulty arose in using that comparison because, of course, a private company was essentially different from a public company with easily marketable shares. Such companies distributed reasonable amounts of profit and the value of their shares was determined accordingly. There were many reasons why a private company would restrict its dividends. In those cases some regard must be had to profits and to assets. Some companies were almost family money boxes.

Mr Bacon said the Estate Duty Office recognized that there was no essentially right way of valuing shares and was prepared to discuss valuation along any lines which took the basic facts into consideration – provided all those facts, and not just some of them, were taken into account.

Adverting to the fall in value of shares by reason of the death of one of the holders, Mr Bacon said that notwithstanding his long experience he was still astonished at the extent to which British industry would appear to be utterly dependent on the precarious lives of octogenarians.

Mr Bacon's carefully thought-out and helpful address was well received and he proceeded to answer questions on it.

The concluding session of the conference at which the chair was occupied by Mr W. W. Fea, B.A., A.C.A., was addressed by Mr C. E. Garland, Barrister-at-law, formerly a Senior Principal Inspector of Taxes. An authority on income-tax case law, Mr Garland gave an exceedingly informative talk on 'Recent legislation'.

For the Ladies

Special arrangements had been made for the entertainment of the ladies who did not choose to attend the business sessions; these included a mannequin parade in the Popular Restaurant at the Pavilion, and a motor-coach tour to the New Forest and neighbouring beauty spots.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

PRESIDENT'S MEETING

The president's meeting of the Chartered Accountant Students' Society of London, briefly mentioned in our issue of October 17th, was held in Guildhall on October 7th. Sir Harold Gillett, M.C., F.C.A., was in the chair, and the speaker was Marshal of the Royal Air Force Sir John Slessor, G.C.B., D.S.O., M.C., whose address was on 'European security'. There was a large attendance.

Welcome by the Lord Mayor

The proceedings were opened by the Lord Mayor of London, Sir Rupert De la Bère, K.C.V.O., M.P., who, in welcoming the meeting to Guildhall, said that Sir Harold Gillett had just completed a year of office as sheriff and no lord mayor had ever had a man of greater loyalty and ability to assist him.

The president thanked the Lord Mayor for coming to be with them for a short time that evening.

European Security

Marshal of the Air Force Sir John Slessor, in the course of his address, said that our lives and the whole future of this country depended on the answer to the question of European security and the North Atlantic Treaty countries. He was going to be rash enough to prophesy that there would not be a third world war, provided we played our part aright. War had always

been insanity, and now it had reached a stage when it would become a sort of general suicide, and he did not believe that any power would deliberately risk starting another world war. He thought that for quite a long time there would be a continuance of the present situation of absence of real peace and absence of real hostilities. It was not impossible that during the next twenty or thirty years we should have many more Koreas, and our policy should be to isolate them and not allow them to grow into the real thing. It was not a very cheering prospect, but much more so than the prospect of a flat-out war.

First Things First

This country and the United States must put first things first and make sure that they kept the lead in technological and scientific developments. For over one hundred years before 1914 the *Pax Britannica* had rested fair and square on the British Fleet, and in the future the *Pax Atlantica* would rest just as strongly on our bomber force. The most difficult problem today was that of a united Germany, and he thought that some system of mutual support guarantee, based on Anglo-American air power, was the best solution.

Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., proposed a vote of thanks to the speaker, which was briefly acknowledged.

NEWS FROM THE COMMITTEE

We are glad to report that Mr G. B. C. Hughes, B.A., A.C.A., has become a member of the Committee of the Society. Mr Hughes has agreed to undertake the work of debates secretary.

New Lecture Hall

The general lectures on November 9th, 16th and 23rd, are to be held in Caxton Hall and it is hoped that this will be found a convenient centre by articled clerks in the West End and Victoria districts. Caxton Hall can be reached from the City via St James's Park underground station, and is also easily accessible by any of the bus routes running along Victoria Street.

Friday Lunch-time Meetings

Following the recent discussions on examination questions in the Society's library at 111 Moorgate, the Committee has decided to hold a regular series of lunch-time meetings there to discuss examination questions and other study problems that students may wish to raise. The meetings will be held each Friday, starting at 1 o'clock and will be led by a qualified member of the Committee. The first meeting will be on November 6th.

Visit to the Stock Exchange

A party is being made up to visit the Stock Exchange

on Saturday, December 5th. Those who wish to be included are asked to send in their names to the Library as soon as possible.

Library News

Thanks to the good offices of the Editor of *The Accountant*, a large number of copies of the published accounts of limited companies are now available in the library.

Sports

Squash: in a match on October 6th, the Society defeated The Dolphins Squash Club by 4 games to 1.

A sailing club has been proposed: members who are interested should send in their names to the Assistant Secretary.

Christmas Dance

Numerous applications have already been received for the dance to be held at the Royal Festival Hall Restaurant on December 11th. (*N.B.* not the 18th as previously announced). Those who wish to attend are advised to send their applications to the Secretary as soon as possible.

It is hoped to publish the next 'London Students' Page' in *The Accountant* dated November 28th.

REPORTS OF PUBLIC COMPANIES

THE ACCOUNTANT ANNUAL AWARD

The Accountant proposes to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange, in relation to the form and contents of the reports and accounts as issued to their members.

The factors which will be considered by the panel of judges will include the adequacy of the information given and its presentation.

The following have consented to serve on the panel:

Mr Montagu Gedge, Q.C., *Chairman*; Mr W. L. Barrows, J.P., F.C.A.; Sir Harold M. Barton, F.C.A.; Lord Latham, J.P., F.A.C.C.A.; Mr Thomas Lister, M.A., C.A.; Mr Bertram Nelson, J.P., F.S.A.A.; Mr G. Tyser; Mr Derek du Pré, Editor, *The Accountant*.

NOTES AND NOTICES

Personal

MESSRS SMITH & GARTON, Chartered Accountants, of 23 John William Street, Huddersfield, announce that they have amalgamated their London office practice at 329 High Holborn with that of Mr FRANK PHILLIPS, F.S.A.A., of the same address, who has been associated with the firm for a number of years as resident manager, and that of Mr HOWARD GERALD HAYMAN, F.C.A., who has previously carried on practice under the style of H. G. HAYMAN & CO. The practice will be carried on under the style of SMITH & GARTON.

MR J. MAYHEW-SANDERS, F.C.A., of MAYHEW-SANDERS & Co, Chartered Accountants, of 31 St James's Place, London, SW1, announces that he has taken into partnership, as from October 1st, 1953, Mr ROBERT WILLIAM POLLOCK, A.C.A. The style of the firm will remain unchanged.

MESSRS PEAT, MARWICK, MITCHELL & Co, Chartered Accountants, of 11 Ironmonger Lane, London, EC2, announce that, as from October 1st, 1953, their Singapore, Ipoh and Penang offices are absorbed into the Kuala Lumpur partnership of the firm to form a Malayan firm with Kuala Lumpur as its centre. The partners of the Kuala Lumpur firm announce that as from the same date, they admitted into partnership Mr H. R. OPPENHEIM, A.C.A., who will be the resident partner in Ipoh, and Mr H. K. FRANKLIN, A.C.A., who will be the resident partner in Singapore. The partners of the Malayan firm resident in Malaya, as from October 1st, 1953, are as follows: Mr H. MUNRO SCOTT, F.C.A., Mr H. R. VILLIERS, F.C.A., Mr H. R. OPPENHEIM, A.C.A., and Mr H. K. FRANKLIN, A.C.A.

MESSRS J. L. BAYLIFFE & Co, Incorporated Accountants, of 5A Hammet Street, Taunton, announce that as from November 2nd, 1953, they are removing their offices to 2 The Crescent, Taunton.

MESSRS THOMAS L. THEOBALD & SON, Chartered Accountants, of 19 Buckingham Street, Strand, London, WC2, announce that Mr PETER H. WAYNE, A.C.A., has joined them in partnership with effect from September 1st, 1953. The style of the firm will remain unchanged.

MR L. FAWLEY JUDGE, F.C.A., practising under the style of FAWLEY JUDGE & EASTON, Chartered Accountants, at 1 Parliament Street, Kingston upon Hull, announces that as from November 1st, 1953, he is taking into partnership Mr EDGAR GRAY CHADWICK, A.C.A., who has been associated with the firm for many years. The style of the firm will remain unchanged.

Professional Notes

Mr W. J. Kimpton, A.S.A.A., has been appointed Principal Accountant of the Admiralty, in succession to the late Mr W. J. Phillips, O.B.E., A.S.A.A.

Mr G. Bradley, C.A., a partner in the firm of Thomson McLintock & Co, Chartered Accountants, has been appointed a director of The Grange Trust Ltd in succession to Sir John Morison, C.A., chairman of the Iron and Steel Holding and Realization Agency, who has left the board.

Mr W. J. Lee, A.C.A., hitherto secretary of Hattersley (Ormskirk) Ltd, has been appointed managing director of the company. He has been succeeded as secretary by Mr R. N. Inman, A.C.A., accountant of the company.

New Lord of Appeal in Ordinary

The Queen has been pleased to approve the appointment of the Hon. Lord Keith as a Lord of Appeal in Ordinary in succession to the Right Hon. Lord Normand, who has resigned.

Obituary

ELIJAH SUDWORTH, F.C.A.

We have learned with regret of the death of Mr Elijah Sudworth, F.C.A., of Huddersfield, at the age of 75.

Mr Sudworth was admitted an associate of the Institute in 1904 and was elected a fellow in 1920. Until his retirement three years ago, he was senior partner in the firm of Wheawill & Sudworth, Chartered Accountants, of Huddersfield, Leeds and London.

A former president of Huddersfield Chamber of Commerce, Mr Sudworth was a director of Hopkinsons Estate (Huddersfield) Ltd, Peter Conacher & Co Ltd, and a member of the board of management of Huddersfield Royal Infirmary.

HOWARD RUSSELL SELMON, A.C.A.

We have learned with regret of the death at the age of 53 of Mr Howard Russell Selmon, A.C.A., chief accountant of James Howell & Co Ltd, of Cardiff.

Admitted an associate of the Institute in 1923, Mr Selmon joined James Howell & Co in 1926. He was subsequently appointed chief accountant, and later became a director, from which position he retired early this year.

Mr Selmon was a member of the Cardiff and County Club, the Radyr Golf Club and the Glamorgan Wanderers Club.

ARTHUR JOHN COTTERILL, A.C.A.

It is with regret that we announce the recent death of Mr Arthur John Cotterill, A.C.A., joint managing director of Twiney Brothers Ltd, of Nottingham.

Mr Cotterill was admitted an associate of the Institute in 1912 and joined his company as secretary in 1919. He was appointed to the board of directors in 1927, and became joint managing director in 1945.

The Late Sir Arthur Middleton, J.P., A.S.A.A.

MEMORIAL SERVICE

A memorial service to the late Sir Arthur Middleton, J.P., A.S.A.A., was held last Tuesday at St Margaret's Church, Westminster.

The Queen was represented by Lord Mancroft, who, with the Lord Mayor of London, Sir Rupert De la Bère, was among the large congregation which included representatives of many municipal, professional and educational bodies and the arts. The address was given by the Bishop of Kensington.

An obituary notice of Sir Arthur Middleton appeared in our last issue.

In Parliament

COMPANIES: ANNUAL MEETINGS

Mr GLENVIL HALL asked the President of the Board of Trade for the year 1952 or the last completed year, the number of companies which have had to be reminded that they have not held an annual general meeting within the prescribed time; how many have been proceeded against; and whether he will consider including in the annual return form a request for the inclusion of the date when the last such meeting was held.

Mr H. STRAUSS: In 1952, 33 companies were reminded and proceedings were taken against two. I am advised that the suggestion in the last part of the question would require legislation.

Hansard, Oct. 20th, 1953. Written Ans. Cols. 246-7.

ROYAL COMMISSION ON TAXATION: REPORT

Mr ERROLL asked the Chancellor of the Exchequer if he will give an approximate indication of when the Report of the Royal Commission on Taxation will be completed.

Mr BOYD-CARPENTER: I understand that the Royal Commission are engaged in considering the evidence submitted to them, but I am unable to forecast when their Report will be received.

Hansard, Oct. 20th, 1953. Written Answers. Col. 249.

FOOTBALL TAX: SCOTTISH REPRESENTATIONS

Mr WHEATLEY asked the Chancellor of the Exchequer if he has considered a communication from the secretary of the Scottish Football Association on the unfair incidence of entertainment tax on some outdoor sports, and, in particular, association football; and what is the nature of his reply thereto.

Mr BOYD-CARPENTER: Yes. My right hon. friend has informed the Association that their representations will be borne in mind in connection with the undertaking that he gave during the debates on the Finance Bill to watch the incidence of the duty on football in the present season.

Hansard, Oct. 20th, 1953. Written Ans. Cols. 249-50.

DEATH DUTIES

Sir G. LLOYD asked the Chancellor of the Exchequer if he has completed his review of the anomalies arising from the death duties; and if he will make a statement.

Mr BOYD-CARPENTER: My right hon. friend has not yet completed his review and I am, therefore, not at present in a position to make a statement.

Hansard, Oct. 22nd, 1953. Oral Answers. Col. 2149.

London and District Society of Chartered Accountants

LUNCHEON MEETING

A luncheon is to be held on Tuesday next, Nov. 3rd, at the Connaught Rooms, Great Queen Street, Kingsway, WC2, at 12.30 p.m. for 1 p.m., to be followed by an address by the Rt. Hon. Oliver Lyttelton, D.S.O., M.C., M.P.

Birmingham and District Society of Chartered Accountants

The winter programme of the Birmingham and District Society of Chartered Accountants opened on October 19th with a lecture by Mr E. H. Davison, A.C.A., on 'Future profit'. Monthly meetings have been arranged throughout the winter, concluding with the Society's annual dinner in March.

Future lectures in the programme are as follows:

November 17th: 'Services which accountants can render to smaller undertakings', by Mr F. T. Hunter, A.C.A.

December 15th: 'The incidence and evaluation of death duties', by Mr T. A. Hamilton-Baynes, M.A., J.P., F.C.A.

January 13th: Meeting with H.M. Inspector of Taxes.

February 11th: 'Law and procedure at meetings', by Mr H. C. Cox, F.C.A.

March 4th: Annual dinner at *The Grand Hotel*.

All lecture meetings will be held at *The Queen's Hotel*, at 6 p.m.

Birmingham and District Chartered Accountants' Golfing Society

The autumn meeting of the Birmingham and District Chartered Accountants' Golfing Society was held at Blackwell Golf Club on September 24th, when twenty-four members competed. The morning medal was won by the chairman of the Wolverhampton Branch of the Birmingham District Society, Mr John H. Plant, with a net 70 against a standard scratch score of 72. The leading scores were:

MEDAL

1. J. H. Plant .. 77-7 = 70
2. M. Brookes .. 82-11 = 71
3. L. F. Jones .. 89-17 = 72

FOUR-BALL

1. R. F. Bendall and H. D. Radford, 69
 2. H. W. Holt and J. Seedhouse, 69
 3. W. H. Castle and E. S. Hall, 69
- (Result decided on last nine holes)

Tax Instruction in School

The following paragraph under the heading 'High School Tax Instruction Shows Good Results' appears in the October 1953 issue of *The Journal of Accountancy*, New York:

"Tax returns prepared by high school students who received tax instruction in school last year showed an "error factor" of less than 1 per cent, Commissioner Andrews has announced. This is significantly below the 25 per cent United States average. Mr Andrews says that if more schools adopted courses in tax education, the Internal Revenue Service could stop spending so much money correcting arithmetical errors, use more agents to ferret out the dollars that remain in the pockets of the unscrupulous."

Overseas Economic Survey

ECONOMIC AND COMMERCIAL CONDITIONS IN FRANCE
A survey of economic and commercial conditions in France has now been published by H.M.S.O., price 5s (post free 5s 3d). It is the latest volume in the series of Overseas Economic Surveys issued by the Commercial Relations & Exports Department of the Board of Trade.

Chartered Accountants' Golfing Society

The autumn meeting of the Chartered Accountants' Golfing Society was held at Cooden Beach Golf Club on October 17th and 18th. Forty-six members attended and enjoyed the hospitality and amenities of the club.

In the medal round on the Saturday morning the best score was returned by W. O. Newcomb, who, playing from a handicap of 7, returned a net score of 71. His gross score of 78 was equalled by H. D. Nicholson but Mr Newcomb had a better score over the last nine holes and elected to take the scratch prize instead of the medal prize. The next best score was 72 net, and there was a tie between H. W. Pitt and T. C. Miller, Mr Pitt winning the first prize on the better score over the last nine holes.

The Turquand-Youngs Challenge Cup also resulted in a tie between D. V. Littlejohn and the holder, D. W. Gibson. The former had the best score at Cooden Beach - the first round was played at the Royal Wimbledon Golf Club in June - and holds the cup for one year. The leading results were:

MEDAL COMPETITION

W. O. Newcomb	78-7=71	Elected to take scratch prize after a tie with Nicholson
H. W. Pitt	81-9=72	Wins first prize on better score over last nine holes
T. C. Miller	88-16=72	Wins second prize
A. D. Walker	90-16=74	
J. E. H. Beresford	81-7=74	
L. J. Moore	97-22=75	
H. D. Nicholson	78-2=76	
F. Green	87-11=76	
H. G. Foulger	91-15=76	
D. V. Littlejohn	95-18=77	
S. W. Penwill	96-18=78	
D. W. Gibson	86-8=78	
A. E. Whitcomb	88-9=79	
C. I. Steen	91-12=79	
C. M. Daniel	88-9=79	
W. T. Dixon	93-14=79	
J. Dixon	93-13=80	
H. Lemmon	88-8=80	
J. Clayton	86-6=80	

FOURSOMES OVER 15 HOLES (Stableford Scoring)

H. D. Nicholson and S. G. Sillem	34 points
C. M. Daniel and W. O. Newcomb	31 "
H. A. Astbury and T. W. A. Auker	29 "
D. W. Gibson and S. W. Penwill	27 "
J. E. H. Beresford and A. E. Whitcomb	26 "
J. Dixon and W. T. Dixon	26 "
C. E. M. Emmerson and J. B. Pittman	26 "

FOURSOMES (Stableford Scoring)

C. M. Daniel and W. O. Newcomb	36 points
A. D. Walker and P. H. Plews	32.14/16ths
S. G. Sillem and J. B. Pittman	32.11/16ths
D. W. Gibson and S. W. Penwill	32.6/16ths
T. C. Miller and R. S. Bromhead	31.2/16ths
A. R. Taylor and R. Simpson	30.14/16ths
H. G. Foulger and L. J. Moore	30.9/16ths

PUTTING COMPETITION (36 holes)

A. S. MacIver	93
R. S. Bromhead	95
D. W. Gibson	98
S. W. Penwill	98
F. Green	99

Union of Chartered Accountant Students' Societies

Members of chartered accountant students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. Such interchange should be carried out through the secretaries of the societies concerned.

A list of towns where students' societies hold meetings will be found on the front cover of this issue of *The Accountant*.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m.: Lecture: 'The work of the Institute at Moorgate Place', by Mr Alan S. MacIver, M.C., B.A. (Secretary of the Institute).

Wednesday, 6 p.m.: Demonstration of punched-card accounting (limited number).

Thursday, 5.30 p.m.: Debate - motion: 'That coal miners are more important than accountants'.

Friday, 1 p.m.: Lunchtime discussion of study problems brought by students.

Friday, 5.15 p.m.: Introductory course lectures on (1) 'Financial institutions'; (2) 'The law on banking'.

Saturday, 10 a.m.: Visit to the Stock Exchange (limited party).

The Institute of Internal Auditors

LONDON CHAPTER

The first discussion meeting of a series arranged by the London Chapter of The Institute of Internal Auditors for assistants of Chapter members was held at Unilever House, Blackfriars, EC4, last Wednesday, when Mr J. R. Robinson, A.C.A., of Unilever Ltd, spoke on 'The scope of internal auditing'. Other meetings in the series are as follows:

November 4th: 'Control of fixed assets', by Mr J. O. Davies, A.C.A., A.C.W.A., of the National Coal Board.

November 11th: 'Audit of the trading account', by Mr R. C. Bedford, A.C.A., of The National Cash Register Co Ltd.

November 18th: 'Inventory control', by Mr J. Prince, A.C.A., A.C.I.S., of the Ford Motor Co Ltd.

November 25th: 'Payroll audits', by Mr J. Shannon, A.C.I.S., A.C.W.A., of Vitamins Ltd.

December 2nd: 'Internal audit reports and the follow-up of recommendations', by Mr P. B. Hills, A.C.I.S., of the Dunlop Rubber Co Ltd.

Cost Accounting and Productivity

The meeting at Beaver Hall, Garlick Hill, London, on Thursday evening of last week, arranged at the request of the Board of Trade by The Institute of Cost and Works Accountants - notice of which was given in our last issue - proved to have aroused considerable interest.

The hall was filled to capacity by the time the chairman, Sir Leslie Boyce, Bt., K.B.E., Chairman and Managing Director of the Gloucester Railway Carriage & Wagon Co Ltd, and a past Lord Mayor of London, rose to introduce the various speakers, and the fact that the meeting did not finish until almost an hour after it was due to conclude, primarily owing to the many questions put to the speakers from the audience, is a measure of the success that was achieved.

The theme of the meeting was 'What makes management accountancy effective in the U.S.A.?' and the discussion was based upon the reports of three teams which visited America to study management accountancy methods. One team was that from Britain which went under the auspices of the former Anglo-American Council on Productivity; another was a French team and the third was a European team drawn from eleven different countries.

Mr Ronald Parker, Finance Director of the Scottish Division of the National Coal Board, who was the leader of the European team, said that he thought the reasons why management accounting is so effective in the U.S.A. lies primarily; (a) in the purpose for which it is used, namely, to reduce costs; (b) in the co-operation and mutual confidence which exists between accountants and operators; (c) in the acceptance by management that by careful analysis and often scientific investigation, costs can be pre-determined. And lastly, the acceptance by management that corrective action can and must be taken when performance varies from expectation without adequate reasons.

Monopolies and Restrictive Practices Commission

REPORT ON IMPORTED TIMBER

The seventh report of the Monopolies Commission - on the supply of imported timber - was published on Tuesday and is on sale at H.M. Stationery Office, price 4s 6d.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (October.) 'Stock dividends and concepts of income', by George O. May, C.P.A.; 'Building and keeping a clientele requires basic analysis and military tactics', by Dixon Fagerberg, Jun., C.P.A.

THE LAW SOCIETY'S GAZETTE. (October.)

THE SECRETARY. (October.)

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (September.)

THE CANADIAN CHARTERED ACCOUNTANT TAX REVIEW. (Toronto.) (September.)

THE ACCOUNTANTS' JOURNAL. (Wellington.) (August.)

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N.A.C.A. BULLETIN. (New York.) (October.)
 SECRETARIES CHRONICLE. (October.)
 THE ACCOUNTANTS DIGEST. (Burlington, Vt.) (September.)

Other Publications Received

ENGINEERING INDUSTRIES BULLETIN. (November.)
 THE BUILDING SOCIETIES' GAZETTE. (October.)
 INDUSTRIAL WELFARE. (September-October.)
 F.B.I. REVIEW. (October.)
 THE CHAMBER OF COMMERCE JOURNAL. (October.)
 THE DIRECTOR. (October.)
 SCOPE. (October.)
 JOURNAL OF THE INSTITUTE OF BANKERS. (October.)
 JOURNAL OF THE SAVINGS BANK INSTITUTE. (October.)
 SOCIÉTÉ DE COMPTABILITÉ DE FRANCE. (Paris.) (September.)
 DIE WIRTSCHAFTSPRÜFUNG. (Stuttgart.) (October.)
 THE GENERAL ACCOUNTANT. (Vancouver.) (September-October.)
 THE CERTIFIED BOOK-KEEPER. (Cape Town.) (September.)
 THE ROYAL ARMY PAY CORPS JOURNAL. (Autumn.)
 THE WOMAN C.P.A. (New York.) (October.)
 TREASURER'S ACCOUNTS FOR THE CITY OF BRADFORD, 1952-53.

Assistant Official Receiver Appointed

The Board of Trade have appointed Mr Philip Anthony Lawrence to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Birmingham, Walsall, West Bromwich, Wolverhampton, Worcester, Coventry, Warwick, Hereford and Leominster; also for the Bankruptcy District of the County Courts of Dudley, Kidderminster and Stourbridge. This appointment takes effect from October 15th, 1953.

Review of Commercial Conditions in Syria

A review of commercial conditions in Syria has been published by Her Majesty's Stationery Office (price 1s, post free 1s 1½d). This is the latest volume in the series of Reviews of Commercial Conditions issued by the Commercial Relations and Exports Department of the Board of Trade.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 3RD, 1928
Extract from a leading article.

The Mathematical Aspect of Goodwill

The rapid development of accounting theory is very well illustrated in the lecture which Mr. P. D. LEAKE, F.C.A., delivered before the Bristol Chartered Accountants' Students' Society on the 10th ult., and which we print in this issue. In some sense the whole science is continually moving forward, but there is no portion of the subject which has shown more marked signs of rapid development in the last

few years than the discussion of the nature and valuation of commercial goodwill. Less than twenty years ago our students were told that goodwill was a hazy abstraction connected with locality and reputation, which was only to be valued by the higgling of the market, based upon a process of bargaining following no direction which could be distinguished from mere tradition. In recent years, however, it has been pointed out, and by none more clearly and insistently than by Mr. LEAKE himself, that even what has been considered for generations as hopelessly intangible may after all be susceptible of exact measurement. In the lecture now under notice, Mr. LEAKE makes a praiseworthy attempt to bring the matter into the region of the concrete by the use of specimen calculations. . . .

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 2ND, 1878

Extract from a Note in Passing "Suffering Creditors"

The most curious journalistic hotch-potch with which we are acquainted is found in the *Times* money article. Not only does the City editor therein direct the attention of his readers to the innumerable subjects with which it is his province to deal, but he also extends a sympathetic patronage to numberless correspondents with grievances. They are permitted to state their troubles in print, sometimes at considerable length; and very often the City editor adds some remarks of his own with the apparent object of driving home the moral of his correspondents' remarks, or supplying the solace which the *Times* only can supply to their wounded spirits. To judge by such paragraphs of this character with which we have to do, the task of editing the City article of the leading journal must be a surprisingly easy one. . . .

ANNOTATED TAX CASES

Edited by ROY BORNEMAN, Q.C.

Published on the first Saturday after the 20th of each month. Reports of Income-tax, Sur-tax, Profits Tax, E.P.T., Death Duties and Stamp Duty Cases decided in the Courts of England and Scotland. The reports contain a lucid summary of the cases and a full report of the judgments, together with explanatory notes on the decisions.

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The Accountant

ESTABLISHED 1874

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CONTENTS

Leading Articles	<i>Page</i>
The New Session	517
Estate Duty and Private Companies: Recommended Changes	518
Special Article	
The Remuneration of Trustee Directors by <i>Geoffrey Hornsey, LL.M., Lecturer in Law, University of Leeds</i>	519
Lecture	
The Excess Profits Levy - II by <i>E. N. Macdonald, D.F.C., F.C.A.</i>	520
Weekly Notes	524
Finance and Commerce	527
Correspondence	529
Taxation Case	531
The Institute of Chartered Accountants in England and Wales	
Taxation and Research Committee	532
Netherlands Institute of Accountants	
Annual Conference in Amsterdam: New Tendencies in Published Accounts	533
Leeds, Bradford and District Society of Chartered Accountants	
Annual Dinner	536
Association of Certified and Corporate Accountants	
Annual Dinner and Dance: Presentation to Mr J. C. Latham, D.L.	537
The Institute of Cost and Works Accountants	
Manchester and District Branch Dinner	538
Notes and Notices	
Personal - Professional Notes - The Work of the Institute - Manchester Society of Chartered Accountants - Chartered Accountant Students' Society of London - Assistant Official Receiver Appointed - Incorporated Accountants' Lodge-Philippine Institute of Accountants - Chartered Accountants' Hockey Club - Law Reports - Seventy-five Years Ago	539

THE NEW SESSION

THE QUEEN'S Speech from the throne to the Houses of Parliament last Tuesday was perhaps remarkable more for what it omitted than for what it contained, as far as the accountancy profession is concerned.

One would have hoped to hear some promise of legislation designed to reform and perhaps simplify income-tax law. A Royal Commission has now been sitting on this matter for a considerable time and although the Government refused as recently as last month to indicate when the Commission's report was likely to be available, the report surely cannot be long delayed now. A committee has been considering the taxation treatment of provisions for superannuation for a period even longer than that taken by the Commission but there is neither any news of its report nor any indication that legislation on the subject is in the offing.

When the excess profits levy was introduced last year the rates of profits tax were reduced in consequence. The levy terminates at the end of next month but there is as yet no indication of whether the old profits tax rates will be restored, a matter of the very greatest concern to industry. However, this is perhaps one of the matters where the CHANCELLOR will refuse to anticipate his Budget statement, which may mean a retrospective increase.

The CHANCELLOR did promise last June to investigate the anomalies of estate duty, notably the notorious Section 55 of the Finance Act, 1940, but the Speech gives no indication of legislation on the subject. Again, the precise year for which new rating assessment will come into force is a matter of the greatest importance, but the Speech was silent on this.

A welcome sign is the promise in the Speech to stimulate a vigorous resumption of slum clearance and to facilitate the repair and improvement of houses by local authorities and other owners. A White Paper issued on the same day shows that at last the Government is to grasp the nettle of rent restrictions, in order to arrest the growing deterioration of rent-controlled houses. The method to be adopted to this end is on the lines of that put forward by the Chartered Institution of Surveyors which we reviewed in our issue of May 26th, 1951. We hope to deal more fully with the White Paper proposals in our next issue. The financial provisions of the Town and Country Planning Acts are to be amended.

It is intended to amend the existing arrangements for payment of the equalization grant to local authorities but this change is to be confined to Scotland, notwithstanding the vigorous criticisms of the system in England and Wales.

ESTATE DUTY AND PRIVATE COMPANIES RECOMMENDED CHANGES

DURING the debate on this year's Finance Act it was announced that the CHANCELLOR would inquire into some of the anomalies thrown up by estate duty, particularly in relation to the valuation of shares in private companies under Section 55 of the Finance Act, 1940. At the same time he invited representations. Both the Federation of British Industries and the Association of British Chambers of Commerce have now submitted useful memoranda on the subject.

The Federation calls for action on the following lines:

- (i) Reduction of the severe rates and alteration of the scale of duty.
- (ii) Amendment of the rules and practice of valuation prescribed by Section 55 so as to conform with the general basis laid down by the Finance Act, 1894, viz. the open market value of the property passing on death.
- (iii) The narrowing of the scope of Sections 46-54 of the Finance Act, 1940.
- (iv) The provision of equitable machinery of appeal so as to ensure the correct interpretation of those principles of valuation in particular cases.
- (v) The provision to executors of extended time within which payment of the duty can be made.

The tenor of the Association's memorandum is similar. It produces some statistics which show that in the last twenty years the death duties contribution to the total revenue has fallen from 10 per cent to 4 per cent. Notwithstanding the fall in the value of money and the rise in rates, total death duty receipts in 1951-52 were only £182 millions as against £77 millions in 1932-33. It is inevitable that large family fortunes must be rapidly reduced as deaths succeed each other, while no doubt more and more people are realizing that they cannot afford to die leaving large fortunes and they take appropriate action in their lifetime accordingly.

As long ago as February 1952 the Association published a booklet on *The Family Business - A National Asset*, which we reviewed in our issue of February 23rd of that year, and which contained representations similar to those now put forward. Even apart from the discontent occasioned by the way in which the Finance Act, 1940, is applied by the Estate Duty Office, the crushing rates of duty are having a number of regrettable effects. In the first place, a good deal of energy and thought has to go into considerations of how to reduce the burden. Then the will to build up a business is sapped by the thought of the toll which estate duty will take. It certainly needs to be considered whether a return to pre-war rates will restore a buoyancy to the tax which it is obviously losing.

The memoranda now submitted show that the artificial basis of valuation of private company shares is applied to cases where it could not conceivably have been intended, wherever such cases technically fall within the section. There are instances given of a person having control of a company thrust upon him by the accident of someone else's death, and of getting rid of that control as soon as possible. Nevertheless, the section is applied if he does not survive five years. The answer of the Estate Duty Office to any criticism is that Section 55 is mandatory, although it is perfectly well known that the section was introduced to combat deliberate evasion.

We are not entirely with the Federation in its argument that where a share is valued on the assets basis, goodwill should be ignored. It is quite true that if business assets are sold piecemeal, the goodwill may in certain circumstances be destroyed. Nevertheless, the hypothetical open market sale must include potential buyers of the whole business as a going concern.

It is interesting to see a revival of the claim for a special tribunal to hear appeals from estate duty valuations. This suggestion was discussed in the recent report of the Evershed Committee but has not found much support. Both the Federation and the Association are perfectly

right in calling attention to the fact that the present practice of negotiation of share valuations between the Estate Duty Office and the taxpayer is not at all satisfactory; it provides neither for expedition nor for equity as between one tax-

payer and another. Another interesting suggestion is that the present rates, which involve an effective rate of 100 per cent in certain ranges, should be replaced by a system of plural rates on sur-tax lines.

THE REMUNERATION OF TRUSTEE DIRECTORS

By GEOFFREY HORNSEY, LL.M.
Lecturer in Law, University of Leeds

THE well-known rule that a company's register of members may contain no notice of any trust in respect of shares has raised several recurrent problems. It is quite clear, of course, that where shares are held on a fiduciary basis, dividends and the like must go to the beneficiaries rather than to the nominal owner, but what should happen, for instance, to remuneration received by the latter as a result of his having been elected a director of the company?

It was long since held by Warrington, J., in *Re Dover Extension Colliery Ltd* ([1907] 2 Ch. 76) that such remuneration is not a profit derived from the ownership or use of the shares, but payment for work done by the director under his contract with the company. But although it is difficult to argue with the logic of this decision, it does tend to fly in the face of one of equity's cardinal principles, viz. that no trustee shall profit from his trust.

The generality of Warrington, J.'s, decision has, therefore, been narrowed in later cases. In *Re Macadam* ([1946] 1 Ch. 73) a testator directed that his trustees were to accept certain shares in satisfaction of a debt, whilst the company's articles stated that the trustees of the testator's will were to appoint two directors to the company's board. The testator died in 1924; X. was appointed trustee in 1931 and director in 1941; Y. was appointed both trustee and director in 1944. It was held, despite the fact that there was no suggestion of any impropriety on the part of anyone concerned, that both must account for their remuneration. Cohen, J. (as he then was), declared that each acquired the position in respect of which he drew the remuneration by virtue of his position as trustee, thus by-passing the distinction drawn by Warrington, J., in the earlier case.

'Although the remuneration was remuneration for services as directors of the company, the

opportunity to receive that remuneration was gained as a result of the exercise of a discretion vested in the trustees, and they had put themselves in a position where their interest and duty conflicted.'

In *Re Macadam*, of course, the trustees controlled their own appointment as directors, and this factor must now be analysed. The decision in *Re Gee* ([1948] 1 All E.R. 498) shows clearly that it is fundamental. The trustee there would have been outvoted even had he voted against his appointment as director, so that Harman, J., held that there was no duty to account for the remuneration received. And according to his reasoning should a person with a controlling interest in his own right become trustee of a minority holding, he would still be entitled to use his controlling vote to procure his appointment as director, and, of course, to retain the remuneration therefor. The existence of the trust does not affect his own voting power, nor could the use of the trust votes prevent the majority prevailing. It cannot be said in such cases that the emolument is gained by virtue of the trust.

It must also be pointed out that a settlor or testator may authorize the acceptance of remuneration of this sort by an express provision in the instrument setting up the trust. Thus in *Re Llewellyn's Will Trusts* ([1949] 1 Ch. 225) the testator empowered the trustees to appoint themselves directors of the company concerned, whilst the articles of the company provided that the remuneration of directors was to be regulated by the board. That the trustees were not to be liable to account, followed, in the opinion of Jenkins, J., by necessary implication. He recognized that the trustees, being in complete control of the company, were in the invidious position of fixing their own remuneration, with an inevitable conflict between interest and duty, but that result was considered inevitable in view of the testator's direction.

THE EXCESS PROFITS LEVY—II

by E. N. MACDONALD, D.F.C., F.C.A.

Statutory references are to the Finance Act, 1952, unless otherwise indicated.

Transfers of Businesses

The adjustments resulting from the transfer of a business are, in a sense, a specialized aspect of excess profits levy, but it is one on which we are all liable to be asked for advice, often at short notice, although the significant period has not much longer to run. For most of us, I think, one of the main difficulties has been to extract from the ten pages of lawyers' prose devoted to this subject in the Act, the general meaning and shape of what is intended. For this reason, if for no other, a brief survey of what happens in excess profits levy computations when a business is transferred as a going concern, is perhaps desirable. I am not now referring to a transfer by means of the purchase and sale of the shares of a company.

Principal points

It is convenient to deal first with the transfer of a business from one company to another. The two main points are the effect of the transfer on standard profits and the effect on excesses or deficiencies already incurred. That leads naturally to the consideration of two sorts of transfer in the matter of date, namely, those before and those after the beginning of 1952. On transfers before excess profits levy began there is obviously no problem about excesses and deficiencies—they arise to the same pocket; but the effect on standard profits has to be dealt with. On transfers after the levy began both matters have to be dealt with.

The Act also draws distinctions between the transfer of substantially the whole of a business and the transfer of part of a business; that affects both the treatment of the standard profits and, if it happens after December 31st, 1951, the set-off of excesses and deficiencies.

Further, the Act makes a distinction, in dealing with standards, between a business which began before January 1st, 1949, and accordingly had at least one option for standard profits in addition to a percentage on share capital, and a business which began after January 1st, 1949, and accordingly can only have a standard based on share capital or a minimum standard of £5,000.

Set-off of excesses and deficiencies

There are severe limits to the right of set-off of excesses and deficiencies arising before the transfer of a business against deficiencies and excesses after the transfer. From the point of view of the vendor company there can be no set-off because Section 42 (3)

includes among the circumstances giving rise to a break in continuity:

- (a) if a company wholly ceases to carry on the trade or business previously carried on; and
- (b) if a company, either in one step or by a series of steps, ceases to carry on a part or parts of its business so that it is left with something less important than what it has parted with.

One or other of these circumstances will inevitably arise on the transfer of a business as a going concern, and if the vendor company continues in existence its previous excesses or deficiencies will be of no use to it. If it disposes of only part of its business and retains the more important part, its continuity of excesses and deficiencies is not affected. How one measures importance and whether this is a question of fact or of law are pleasant problems for debate.

The purchasing company cannot use the excesses or deficiencies of its predecessor unless it satisfies all the conditions laid down in Section 48 of the Act, namely:

- (a) the transfer extends to substantially the whole of the business;
- (b) the purchasing company has not previously carried on business;
- (c) at the date of the transfer the two companies are under common control;
- (d) there is no substantial alteration in the character of the business in the next twelve months; and
- (e) (*ex abundantia cautela*) the vendor company suffers a break in continuity.

Broadly these conditions involve the formation by the owners of one company of a new company to take over the business, without any other change of circumstances. In other words, they will apply to a reconstruction and nothing else.

Succession to standard profits (Section 47)

If the figures of a transferred business are to play any part in the computations of the standard profits of the purchasing company, the rules of the Eleventh Schedule provide the terms on which this can be done, but the Eleventh Schedule will not invariably apply. It will not apply if the transferred business commenced on or after January 1st, 1949 (where the standard must be either the minimum £5,000 or a percentage on share capital), nor will it apply if certain options are taken, dealt with below. If it does not apply, the sale of a business or part of a business will have no effect on the standard profits of either the vendor company or the purchasing company.

If the business began before January 1st, 1949, the Eleventh Schedule will always apply if the two companies are under common control at the date of

The concluding part of a paper presented on October 10th, at the autumnal meeting of The Institute of Chartered Accountants in England and Wales, held at Scarborough, October 8th to 10th, 1953.

transfer, whether the whole or part of the business is being transferred. Where there is no common control the Eleventh Schedule will apply on the transfer of substantially the whole of the business, unless the purchasing company elects to the contrary, but on the transfer of only part of a business the Eleventh Schedule will not apply unless both companies jointly so elect. These elections have to be made within six months after the transfer or after the coming into force of the Act, whichever is later. The Act came into force on July 9th, 1952, so that on any transfers prior to that date elections should have been made, if desired, by January 9th, 1953; The Commissioners of Inland Revenue may, however, extend the period in special circumstances.

The Eleventh Schedule Rules

The rules of the Eleventh Schedule fall into two main sections, dealing respectively with transfers before and after the commencement of excess profits levy.

(A) TRANSFERS BEFORE 1952

On the transfer of substantially the whole of a business before 1952, the purchasing company steps completely into the shoes of the vendor company for the purpose of standard profits, as though the purchasing company had carried on the business, made the profits and losses, had the share capital and borrowed money and paid the dividends which in fact were those of the vendor company. This does not mean necessarily that it will succeed to the standard profits which the vendor company would have chosen, because Section 37 (3) of the Act provides that all the trades and business carried on by a company shall be treated as one and the same trade; if, therefore, it has to be pretended that the purchasers carried on the vendors' business, it is necessary to superimpose the vendors' profits, capital, borrowed money and so forth on those of the purchasers and select the best standard possible from the merged figures.

That is only one leg of the adjustment however. The other leg is a further pretence, that the purchasing company had repaid capital and the vendor company had issued capital, as at the date of the transfer, of an amount equal to the consideration for the transfer, adjusted for any assets and liabilities not taken over. The result is that the purchasing company obtains the benefit on the one hand of an addition (let us hope) to its standard profits and, on the other hand, loses 12 per cent, or 14 per cent if director-controlled, on what it has paid for the business. The vendor company has lost everything on which, prior to the transfer, a standard can be based and, instead, is in the position of a new business, with a notional share capital equal to the consideration money and with a choice of standards open to it depending on the date of the transfer—1947 would give it certain options, 1948 more restricted options and so on; alternatively it may have ceased to have any interest in standards by having been wound up.

The purchasing company, therefore, in considering its option under Section 47, will calculate what it

stands to lose by the deduction from its standard profits of 12 or 14 per cent on the purchase money, and also what it stands to gain from the profits, borrowed money, undistributed profits, etc., of its predecessor by way of improvement of its own standard profits. If it finds that it is going to be worse off it will elect that the Eleventh Schedule shall not apply, in which event its standard profits will continue without any special adjustment at all, though they may, of course, include profits, from the acquired business after the date of purchase. This comparison should be made independently of the allowance on any fresh capital which may have been issued to finance the purchase, since that will be obtained whether the Eleventh Schedule applies or not.

Where the Eleventh Schedule is made to apply to the transfer of part of a business before 1952 the general pattern is the same as for the whole of a business but with proportionate reductions of the profits, losses, share capital, dividends paid and so on, which notionally become those of the purchasing company instead of the vendor company. It is not surprising that the Act does not attempt to lay down rules for this apportionment and, instead, places this duty on the Commissioners of Inland Revenue. One can understand that the two companies might well not see eye to eye about figures which determine how much shall move from one company to the other for periods which may vitally affect the standard profits of both. The good sense immediately becomes apparent of the provision in Section 47 (2) that the Eleventh Schedule shall only apply if the two companies jointly so elect. The likelihood is that they will do so only if agreement can easily be reached on the division of the significant amounts between the parts of the business transferred and retained respectively.

(B) TRANSFERS AFTER 1951

The second main section of the Eleventh Schedule deals with transfers after 1951 and the procedure is rather different. Instead of the pretence that the purchasing company had carried on the trade for all significant years, leaving it to select the best possible standard from the combined figures, it succeeds to the actual standard profits of the vendor company with two important limitations, namely, that it cannot add a minimum standard to its own standard (paragraph 2 (4) (d)), and that it cannot use the succession rule at all for any period for which it takes a minimum standard itself (paragraph 2 (6)). If it does succeed to the standard profits of the vendor company it will sacrifice 12 or 14 per cent on the purchase consideration and on any assets less liabilities excluded from the sale.

In arriving at the vendor's standard profits to be added to the purchasing company's standard for any period, the treatment of initial allowances has to conform to what the purchasing company has elected (paragraph 2 (4) (b)) and the additional 2 per cent for a director-controlled company will only apply, after the transfer, in relation to periods in which

the purchasing company is director-controlled. Actual movements of capital of the vendor company after the sale are, of course, ignored, and its borrowed money is taken as nil (paragraph 2 (4) (a)), because if the purchasing company has assumed the liability it will be included in its own borrowed money and if the liability was not taken over the purchasing company will have had the benefit of a corresponding modification of the sum on which 12 per cent is deducted from its own standard profits (paragraph 2 (3)).

For the first broken period of the purchasing company for which the vendor's standard has to be added, assuming that the transfer did not take place on the purchaser's accounting date, that standard must be calculated as though the broken period were a separate chargeable period; this means that undistributed profits of the vendor will be calculated to a date twelve months before its end and the standard for a full year on that basis will be reduced to conform to the length of the period. For subsequent chargeable periods of the purchaser the vendor's standard to be added will include the allowance on undistributed profits calculated to the date of the transfer.

As with pre-1952 transfers, if only part of a business is transferred the Eleventh Schedule will apply only if both companies so elect and in that event the Commissioners of Inland Revenue have to apportion the vendor's standard profits to arrive at the amount to be added to the purchasing company's standard.

Effect on the vendor company

Frequently a company which has sold its business will not thereafter be interested in excess profits levy and will be wound up, but where it continues, the effect on its standard profits is the exact converse of the effect on the purchasing company. It gains 12 or 14 per cent on the sale consideration, adjusted if necessary for assets and liabilities retained, and it deducts its standard profits calculated as for a chargeable period of twelve months beginning on the date of sale. A nice point has been raised, whether it can deduct its worst possible standard instead of its best, but my personal view is that the phrase 'standard profits for a full year' must imply the same choice of standard each time it occurs in paragraph 3 (1) of the Eleventh Schedule.

If the vendor company is on a minimum standard it gains nothing and gives up nothing, but if the purchasing company allows the Eleventh Schedule to apply it will still succeed to the best alternative standard that can be found for the vendor company, subject, of course, to the 12 or 14 per cent penalty on the purchase price.

Transfer from a firm to a company

Where a business carried on by a firm is transferred as a going concern to a company, and the firm and the controlling shareholders of the company are strangers to each other, the Act provides no rules,

and no special adjustments in the excess profits levy computations of the company will be needed; it will merely have parted with certain assets, probably cash, in exchange for the assets of the firm, or else it will have issued shares which will bring about a straightforward addition to its standard profits equal to 12 or 14 per cent on the consideration. If, however, the company is controlled by the members of the firm, or past members, or their families, or their executors or beneficiaries, the company can elect, under Section 47 (3) which contains this table of consanguinity in detail, that the Eleventh Schedule shall apply as it does between two companies, except, of course, that nothing need be done about the standard profits of the vendor in relation to its own liability because there is no such liability.

Where the sale took place before 1952, the company notionally takes over the past profits and financial history of the firm and makes up its standard from the combined figures. If the sale takes place after 1951 the company increases its standard by what would have been the standard profits of the firm, except that a minimum standard cannot be assumed. Whatever the date of sale, the company will lose from its standard 12 or 14 per cent on the consideration money.

The problem of transforming the past profits and finances of the firm into those of an imaginary company is obviously a difficult one. The only positive contribution made by Rule 6 of the Eleventh Schedule is the rather harsh one that the charge for directors' remuneration shall be on the basis that all the partners shall be treated as full-time directors holding more than 5 per cent of the shares and drawing the maximum permitted remuneration - £2,500 for one and £1,500 each for up to three more. Their actual drawings as partners will be ignored and the problem of the notional share capital and notional distributions is laid in the lap of the Commissioners of Inland Revenue, with power to make other modifications as well. Borrowed money seems to be almost the only hard fact left in a highly supposititious affair. There is a right of appeal to the Special Commissioners on this transformation scene.

Groups of Companies

It is no exaggeration to say that it would only be possible to deal adequately with excess profits levy on groups of companies by devoting an entire paper to it. The subject occupies fifteen pages of the Act and the complexities of the Twelfth Schedule have become a byword. Nevertheless, the computations of many small groups are going along without any great difficulty, because in straightforward cases many of the legislative provisions do not apply at all. The membership of the group at January 1st, 1952, is ascertained, the composite standard and each member's share of it are frequently not very difficult to calculate, though the choice of a standard becomes a lengthier process than for a single company, and thereafter the computations for each member proceed

independently with only slight modifications of the normal rules, such as the exclusion of internal dividends from profits except for calculating undistributed profits, the exclusion of internal borrowed money and conformity to the principal company's election on the treatment of initial allowances.

It is when a group is restless, shedding or receiving members or changing the extent of its shareholdings, that complications arise. Experience has certainly shown that these are the aspects of group treatment on which we are most frequently asked for advice and on which the answers are most closely shrouded in the verbiage and cross-references of the Twelfth Schedule. On one or two of them it may be useful to say a few words.

Acquisition of shares of another company

If one company acquires all the shares of another company after the commencement of excess profits levy, will there be a group or any other special result?

There will be a resulting group if neither or only one of them has previously traded and neither or only one of them was incorporated before January 1st, 1952. If a pre-1952 company, for example, promotes a new company to work a new department, the result will be a group, or if an existing group does the same thing the new company will become a member (paragraph 1 (3) and paragraph 4). These new members bring no additional standard profit to the group; the new company will have issued, and the parent or existing member will be treated as having repaid, share capital equal to the consideration for the shares, so that in effect the new company will take a slice of the group standard (paragraph 12 (1) and (2)). If, however, one pre-1952 company buys the shares of another pre-1952 company the result is not a group and there will be no merging of excesses and deficiencies. Each will continue with its own standard profits, but, because the holding of shares is more than 25 per cent, the purchasing company will be treated as having repaid share capital equal to the consideration money and will exclude from its chargeable profits any dividends received, except in computing undistributed profits; this will apply to any chargeable period throughout which the holding is at least 25 per cent of the ordinary share capital. (Section 50 and Twelfth Schedule paragraphs 12 (1), 12 (2) and 13 (a).)

Sale of shares of a subsidiary

Suppose an existing group sells the shares of a subsidiary to other interests, what are the results for excess profits levy purposes?

This is an example of the process whose legal description ought to have won fame for some anonymous draftsman. The nexus has been severed between the subsidiary and the group, but for ease of interpreting the Twelfth Schedule it should be remembered that such a company continues to be referred to as a member of the group. Actually it so continues in a very limited fashion. It departs, taking with it its share of the group's standard

profit, which may not be the standard it would choose as a separate entity, or it can change to a minimum standard instead (paragraph 6 and paragraph 8 (5)). Apart from this inheritance of a standard based on group conditions it is for nearly all practical purposes out of the group. Its excess profits levy liability is no longer assessed on the principal company, the question of director-control will be decided on its own circumstances and not on those of the principal company and, most important of all perhaps, not only will there be no future set-off of excesses and deficiencies between it and the group, but it cannot use its own past excesses and deficiencies against its future deficiencies and excesses (paragraphs 17 (3), 14 and 18). It continues to be bound, however, by the principal company's election on initial allowances and, presumably, by any revocation of that election by the principal company after the termination of the levy, which might be rather disconcerting (paragraph 15).

The departure of a member will affect the standard profits of the remaining members of the group to this extent, that the sale proceeds of the shares will be treated as an addition to capital of the selling member or members and thus add 12 or 14 per cent on those proceeds to the standards concerned. This seems logical, because neither the profits of, nor dividends from, the departed member are in the standard profits of other companies in the group, whereas the income from the sale proceeds will presumably produce chargeable profits (paragraph 12 (2)).

If the group reduces its holding of ordinary shares of a member below 75 per cent, but retains more than 50 per cent, there is no severance of the nexus and full group treatment continues because the companies remain under common control (paragraph 3). All that would happen would be that the member or members selling the shares would be deemed to have made an issue of share capital equal to the proceeds, which seems logical on the same basis of reasoning mentioned above.

If a minority holding is retained by the group, even though it be less than a 25 per cent interest, any dividends received will continue to be excluded in computing profits, because paragraph 13, which prescribes this treatment, is unaffected by the severance of the nexus. The same adjustment will be made to the selling member's standard by reference to the proceeds of the shares as is described above.

Conclusion

It is impossible to avoid a feeling of irritation that the complexities of excess profits levy have had to be devised and explored for so short-lived an imposition, but I hope that such a mood has not been communicated in this paper, conscious as I am of its other shortcomings. Rather let us be thankful, for our own sakes and for the sake of the economic well-being of the country, that it has been found possible to terminate such a damper on industrial and com-

mercial enterprise and so insidious a temptation to extravagance.

Work on excess profits levy will be with us for some considerable time yet and I hope that the observations in this paper may produce an informative discussion.

CONTENTS		Page
INTRODUCTION		492
OFFICIAL AIDS		492
STANDARD PROFITS		493
Initial allowances		
The relevant date		
Borrowed money		
Increase of share capital		
Deferred repairs		
Percentage on net assets		
Percentage on share capital		
ADJUSTED PROFITS FOR EXCESS PROFITS LEVY		495
Directors' remuneration		
Investment income		

THE OVERRIDING LIMIT	496
UNDISTRIBUTED PROFITS AND OVER-DISTRIBUTION OF PROFITS	496
Capital gains and losses	
Meaning of distribution	
Adjustments for taxation borne or relieved	
Losses of a post-1946 company	
TRANSFERS OF BUSINESSES	520
Principal points	
Set-off of excesses and deficiencies	
Succession to standard profits	
The Eleventh Schedule Rules	
Effect on the vendor company	
Transfer from a firm to a company	
GROUPS OF COMPANIES	533
Acquisition of shares of another company	
Sale of shares of a subsidiary	
CONCLUSION	523

WEEKLY NOTES

Technical Publications of the Institute

Elsewhere in this issue we report a short speech made by the President of The Institute of Chartered Accountants in England and Wales at a meeting of the Institute's Taxation and Research Committee. Referring to Institute 'publications on technical matters, the President said that if such publications are to have real value they must be the result of drawing upon the experience of members in all parts of the country and in all kinds of occupations. This is just what the Council is able to do, particularly through the Taxation and Research Committee. 'Your membership,' said the President, 'includes members from the areas of all the district societies and a substantial number of members in industry, commerce and other occupations outside public accountancy; and in addition you are able to draw upon the experience of the fourteen regional committees to which all major documents are submitted for comment.' It is useful to be reminded from time to time of this very broadly-based foundation on which Institute publications rest.

Professional Unity

The President was at pains to stress the unity of the Institute, notwithstanding the large number of members who are engaged in industry and commerce. 'Our entire membership of over 17,500 has been trained in public accountancy . . . ' he said. 'We all start in the same way and it is only after qualifying that we are able to choose different paths according to our inclinations. But whatever paths we choose we are all chartered accountants. There is no cleavage between one main branch and the other. We all

have our part to play in the profession. . . . We find at every turn that the two main branches of membership are interdependent. Each has its special features and its limitations. Each has much to gain from close contact with the other. . . . Together we constitute *one* body, inspired by the desire to maintain and surpass the standards of service and conduct set by our predecessors.'

The President's words are a happy reminder of the remarkable achievement which the Institute represents, an achievement resting on the wisdom of a handful of accountants who laid down, over seventy years ago, the essential conditions of admission to which the Council today still attaches supreme importance.

New President of the American Institute of Accountants

Mr Arthur B. Foye, C.P.A., of New York City, was elected President of the American Institute of Accountants at its annual meeting held in Chicago on October 20th.

Mr Foye, whose nomination as President was announced in our issue of May 2nd last, is senior partner in the firm of Haskins and Sells, Certified Public Accountants, and a partner in the firm of Deloitte, Plender, Haskins & Sells. A member of the American Institute since 1927, he was vice-president in 1951-52 and is a member of the executive committee and chairman of the Foreign Affairs Committee. He is president of the Far East-America Council of Commerce and Industry, the New York University Alumni Association and the Accountants Club of America; vice-president of the American

Asiatic Association and a member of the National Board of the Young Men's Christian Association.

The four vice-presidents of the Institute elected at the meeting were: Mr Michael C. Conick, C.P.A., Pittsburgh; Mr James E. Hammond, C.P.A., San Francisco; Mr Wallace M. Jensen, C.P.A., Detroit; and Mr John A. Peyroux, jun., C.P.A., New Orleans.

Valuation of Shares for Estate Duty

The hearing was resumed by Mr Justice Dankwerts in the Chancery Division last Tuesday of a revenue action in which Mr Cecil Raymond Holt, Mr John Alphonse Holt and Mr John Chadwick Mather appealed against the decision of the Commissioners of Inland Revenue as to the value, for estate duty purposes, of 43,698 £1 ordinary shares in John Holt & Co (Liverpool) Ltd. The shares were the subject of a settlement, dated January 7th, 1947, by Mr R. L. Holt, who died on March 11th, 1948, and the appellants are the trustees of the settlement.

Mr B. J. M. MacKenna, Q.C., for the appellants, said that the company owned cargo ships, and its business was trading with West Africa. The Crown's case was that the company had large reserves created out of undistributed profits, and that the value of the shares was 25s each. The appellants contended that the value was 17s 2d each, based on a past and prospective dividend of 5 per cent.

Evidence had been given by Mr H. A. Benson, C.B.E., F.C.A., and other witnesses for the appellants.

The Solicitor-General, Sir Reginald Manningham-Buller, Q.C., opening the Crown's case, submitted that some of the information given to the Court was not information which a purchaser of shares – a minority interest in this private company – could normally expect to get. The question the Court had to answer was not what was the fair price of the shares on March 11th, 1948, in the light of the evidence given to the Court, but what they would have realized if offered for sale on that date to persons who had all the information about the company they could properly be expected to have.

'I submit,' said the Solicitor-General, 'that, on the evidence given to your lordship and on the fullest possible disclosure of all adverse factors, the value of these shares if offered for sale on March 11th, 1948, was certainly not less than 25s each.'

The hearing was adjourned.

Road Haulage Costing Report

The joint committee set up in 1951 by the Institute of Municipal Treasurers and Accountants and the Institute of Cost and Works Accountants to promote and encourage research into cost accounting problems affecting local and public authorities has just published its first report.¹ It deals with road haulage, a

service of considerable importance both to local and public authorities and to the country as a whole.

It is estimated that in 1950 a total of £536 million was spent on the transport of goods by road in Britain and that the current level of expenditure is probably appreciably higher. The saving implicit in this sum by increased efficiency in operation is, therefore, substantial. Another reason why this particular subject was chosen by the committee is its suitability for providing standards against which to measure actual performance. Approximately two-thirds of the cost of motor haulage comprise the wages of drivers, licences, insurance, depreciation and garaging. The remaining third is divided equally between repairs and renewals of vehicles and fuel. From this analysis it is clear that the bulk of the expenditure is incurred in keeping the vehicles available for service. In consequence, the more they are utilized the greater is the potential saving in cost. It has been calculated that an increase of 1 per cent in the country's utilization of road haulage vehicles would result in a saving of £4 million a year.

The committee considers how best this may be effected and also suggests possible ways of economizing in the expenditure on repairs and fuel and what costing data should be collected in order to afford satisfactory standards of comparison. If this workman-like report is indicative of its future activities, the committee's publications should be a distinctive addition to the corpus of costing literature.

The members of the joint committee responsible for the publication are:

Representing the Institute of Municipal Treasurers and Accountants: Mr Ernest Sinnott, F.I.M.T.A. (joint chairman), Chief Accountant, South Eastern Electricity Board, Hove; Mr Richard Marshall, F.I.M.T.A., County Treasurer, Gloucestershire County Council; Mr Walter Nuttall, F.I.M.T.A., F.C.W.A., Borough Treasurer of Darlington; Mr F. M. Walker, F.I.M.T.A., City Treasurer of Oxford.

Representing the Institute of Cost and Works Accountants: Mr A. W. Muse, F.C.W.A. (joint chairman), Chief Accountant, Public Works Department, City of Birmingham Corporation; Mr C. H. Durman, F.C.W.A., A.I.M.T.A., City Treasurer's Department, Portsmouth Corporation; Mr Robert Glendinning, F.C.W.A., Senior Accounts Assistant, British Transport Commission, Marylebone Station; Mr S. C. Tyrrell, F.C.W.A., Local Director and Chief Accountant, Newton Chambers & Co Ltd, Thorncliffe, near Sheffield.

Hospital Costing Working Party Appointed

The Minister of Health has set up a working party to devise a system of hospital costing based on departments and services, which could be used to supplement the existing subjective accounts system of dividing expenditure under such headings as salaries and wages, drugs and dressings, and provisions.

His decision follows consideration of comments received from hospital bodies on the reports on hospital costing prepared by the King Edward's Hospital Fund for London, the Nuffield Provincial

¹ *Transport Costing*. Published for a joint committee of the Institute of Municipal Treasurers and Accountants (Incorporated) and the Institute of Cost and Works Accountants. Sole distributors: Gee & Co (Publishers) Ltd. 2s 6d post free.

Hospitals Trust¹ and a subcommittee appointed by the Committee of Regional Hospital Board Treasurers².

The Minister has stated that he agrees in principle with the view of many of the bodies consulted that while it is not practicable at present to replace the present subjective accounts system by one based on the departments and services of a hospital, a system of departmental and unit costing (supplementary to the subjective analysis of expenditure in the accounts) in at any rate the larger hospitals, would be of value to hospital administration and would facilitate efficient and economical spending. In his view the next step was to set up a working party charged with the task of devising a practical scheme on this basis with the fullest possible regard to the need for economy in money and manpower.

The working party will suggest to what types and sizes of hospital the system it recommends should apply and will be free to suggest different systems for different types and sizes. The members of the working party are:

Mr W. O. Chatterton, Ministry of Health (Chairman); Mr F. J. Aldridge, Ministry of Health; Capt. J. E. Stone, C.B.E., M.C., F.S.A.A., Director, Division of Hospital Facilities, King Edward's Hospital Fund for London; Mr G. McLachlan, B.COM., A.S.A.A., Accountant, The Nuffield Provincial Hospitals Trust; Mr A. J. Bennett, M.A., F.H.A., Secretary, North West Metropolitan Regional Hospital Board; Mr F. S. Adams, A.S.A.A., A.I.M.T.A., Treasurer, Birmingham Regional Hospital Board; Mr S. Clayton Fryers, C.B.E., F.H.A., Secretary and Chief Administrative Officer, The United Leeds Hospitals; Mr J. W. D. Rowlandson, A.C.A., Chief Accountant, St Bartholomew's Hospital; Mr W. Stansfield, F.H.A., Secretary, Sheffield No. 1 Hospital Management Committee; Mr I. G. Bonn, A.I.M.T.A., F.H.A., Finance Officer, Brighton and Lewes Hospital Management Committee; Mr E. A. Hall, A.S.A.A., F.I.M.T.A., Finance Officer, Birmingham (Dudley Road) Group Hospital Management Committee; Mr W. S. Smith, M.B.E., F.H.A., A.R.S.A.N.I., Secretary and Finance Officer, St Lawrence's Hospital Management Committee, Bodmin, Cornwall.

Failure to Make Sur-tax Returns

The Inland Revenue successfully claimed a penalty under Section 22 (2) of the Finance Act, 1922 (now Section 232 of the Income Tax Act, 1952), in a case recently reported in *The Times* (*C.I.R. v. Elcock*, October 30th, 1953). Counsel for the Inland Revenue told Mr Justice Sellers that the defendant was a chartered accountant with very considerable and varied business interests, whose income had been provisionally assessed by the authorities at £20,000. The Special Commissioners had requested him in 1950 to supply details of income for sur-tax purposes for the seven years concerned, but no return was made. Counsel asked for the maximum penalty.

Section 22 (1) of the Finance Act, 1922, empowers the Special Commissioners to require the taxpayer

to furnish, within such time as they prescribe (not being less than 28 days) the particulars the Special Commissioners consider necessary. Section 22 (2) provides as follows:

'22. - (2) If any person without reasonable excuse fails to furnish within the time prescribed any particulars required under this section, he shall be liable to a penalty not exceeding fifty pounds, and after judgment has been given for that penalty to a further penalty of the like amount for every day during which the failure continues.'

His lordship said the defendant had failed to advance any excuse or justification for his neglect. He was a chartered accountant and therefore a person who knew something of the requirements of the Finance Act and of the necessary returns which had to be made. Without laying down any general principles as to the way in which the subsection should be applied, his lordship gave judgment for the Crown for £350.

Industrial Assurance

The publication of the annual reports of the Industrial Assurance Commissioner has now been resumed and the report for the year 1952 has just been issued.³ It deals with the industrial assurance business transacted by the 14 companies and 115 collecting societies which are registered under the Friendly Societies Acts.

The 1952 report is the first comprehensive report to be published since that for 1937; although a brief two-page report was issued for 1938. It therefore contains references to legislation passed and to certain matters of importance that have arisen in the meantime.

During the years 1937-52 the number of industrial assurances in force has increased from 96,225,000 to 121,937,000, the premium income from £66,390,000 to £137,605,000 and the industrial assurance funds from £385,056,000 to £918,992,000. The amount paid out in respect of claims on death during this period has increased from £21,550,000 to £32,836,000 and in respect of claims on maturity of endowments from £6,579,000 to £34,502,000.

From these figures it is obvious, the report says, that there has been a considerable change in the composition of industrial assurance business and that the popularity of endowments and whole life policies with periodical endowment payments has greatly increased in recent years.

Rayon Output Recovers

The particularly heavy fall in rayon production during August was made good by a sharp recovery in September. Total output increased from 28.8 in August to 36.2 million lb which was only 0.9 million lb lower than July - and if allowance is made for the fact that September was a shorter working month, its daily rate of output was slightly better than July.

¹ See *The Accountant*, December 6th, 1952, at pp. 661 and 678.

² See *The Accountant*, August 16th, 1952, at page 177.

³ *Report of the Industrial Assurance Commissioner for the Year 1952*. H.M.S.O. 2s 6d. net.

FINANCE AND COMMERCE

A fresh volume of demand for industrial equities has strengthened the general tone of stock-markets. Profit-taking has been quite well absorbed by fresh support and the volume of business passing has been on a fair scale. The movement towards good-class equities has been encouraged by a sequence of very satisfactory profit and dividend statements.

'Vespa' Accounts

This week's reprint gives the accounts for Douglas (Kingswood) Ltd, which is still in the hands of a receiver and manager, Mr W. Walker, F.A.C.C.A. Douglas is a pioneer name in the history of internal combustion engines and motor cycles. More recently, the company has added the 'Vespa' motor scooter, under licence, to its stable and this car on two wheels is now becoming a familiar sight on the roads here, as it is on the Continent.

The transfer from war conditions to peace, however, was for this company an unfortunate experience which has left its mark on the accounts. The board are now anticipating that at some future date there must be a reconstruction. They have deemed it prudent to make provision in full against all obsolete stocks of models, parts, materials, tools, jigs, etc., which are no longer current or which do not appear to be readily marketable. This adds £100,000 to the £25,000 provided last year.

It will be noted that a valuation of fixed assets has been obtained showing a substantial surplus and presumably this surplus would figure in any reconstruction. Mr Harold Whitehead, the chairman, draws attention to expanding 'Vespa' sales but sees purchase tax and hire-purchase restrictions as impediments to trade. In this connection, we have heard of bank facilities being granted for the purchase of motor scooters on the grounds that their use would reduce the costs of travel for business purposes.

Profit and Loss Account

Taxation and tax adjustments seem to dominate the consolidated profit and loss account for the year to June 30th last, issued by The Calico Printers' Association Ltd. On one side there is £648,097 for United Kingdom income-tax on the year's profits reduced by £55,017 by an adjustment of the previous year's tax. This is followed by United Kingdom profits tax for the year of £119,634 reduced by £2,086 by an adjustment of the previous year's tax. And on the other side, there is a credit for £769,347, the balance of provision for excess profits tax no longer required, after deduction of the relative income-tax.

As the excess profits tax write-back is within £5,000 of the balance carried to appropriation account, it would not be surprising if some stockholders gained the impression that the year's profit for appropriation came from that entry. In point of fact, the first credit

item shows that trading profit was up from about £1½ million to £1¾ million.

There seems in this form of account, an argument for the single column statement which in appropriate stages and with heavy type for the 'landmarks' shows the way through the profit (or loss) story from the first to last chapter. We certainly find the single column, when well set down, easier to follow.

Holidays with Pay

Holidays with pay have come to stay. They are all part of the social evolution which has gone forward so rapidly in the last generation. Some company chairmen make a particular reference to the impact of paid holidays on profits on their first introduction, but it soon becomes the norm and sinks back into the range of expenditure that seldom sees the light of day in the published accounts.

While welcoming the fullest disclosure in company accounts, however, one wonders what real object can be served in singling out this item 'holidays with pay' for publication in the accounts of S. G. B. (Dudley) Ltd, manufacturers of sanitary ware etc., of Dudley, Worcestershire. The cost to the company under this head is shown as £5,140 for the year to June 30th, 1953, as against £5,477 the year before.

It would be another matter if the accounts opened with a turnover figure and showed how this was absorbed under various main heads such as cost of materials; salaries, wages, etc.; and other grossed items of expenditure. But it looks rather as if the directors had some particular purpose in thus emphasizing the cost of holidays with pay. Some people might ask: Whose holidays?

Hall's Wine Cheaper

In the accounts to April 30th last, issued by Stephen Smith & Co Ltd, provision is made for the effect of the reduction in the price of Hall's Wine, one of the company's products, which came into operation on May 1st. This reduction, states Mr Redit Ganiford, the chairman, involved the company in the obligation to recompense trade customers for loss on stocks for which the former trade price had been paid.

The downward revision in trade terms was 'substantial' and entailed a corresponding high total in the amount of claims received. The board has taken the view that as the decision to cut the price was governed by a long-term policy, claims received should not be charged against current profits.

Specific provision has therefore been made in a reserve of £10,000 'to meet estimated allowances arising out of reduced price of Hall's Wine' under the heading of revenue reserves. This amount has been taken out of the credit balance on profit and loss account, which, standing at £33,583, is some £30,000 higher, the chairman points out, than was until quite recent years habitually carried forward.

DOUGLAS (KINGSWOOD) LIMITED
(W. Walker, J.P., F.A.C.C.A. - Receiver and Manager)
Balance Sheet as at December 31st, 1952

Members' Interest in the Company

(i) **Share Capital**

Authorized:

760,000 Ordinary Shares of 5s each	£ 190,000
240,000 'A' Ordinary Shares of 5s each	60,000
£500,000 Ordinary Stock in units of 5s each	500,000
£100,000 Deferred Stock in units of 2s each	100,000
	<u>£850,000</u>

Issued and fully paid:

2,000,000 Ordinary Stock units of 5s each	500,000
1,000,000 Deferred Stock units of 2s each	100,000
	<u>600,000</u>

(ii) Revenue Reserve	10,000
(iii) Profit and Loss Account	1,046,221
	<u>£436,221</u>

1951		
£	£	£
190,000		
60,000		
500,000		
100,000		
	<u>£850,000</u>	
500,000		
100,000		
	<u>600,000</u>	
10,000		
858,656		848,656
	<u>£436,221</u>	<u>£248,656</u>

Represented by:

(1) **Fixed Assets**

Freehold Land and Buildings	£ 202,797
Fixed Plant and Machinery	188,462
Loose Plant, Furniture, Fixtures and Fittings	54,765
Vehicles	7,746
	<u>£453,770</u>

Gross Values		Deductions from Gross Values			
At Valuation dated June 14th, 1935, plus net additions at cost (including War Damage adjustment) less transfer from Reserve Account at August 4th, 1939	Additions at cost less sales during the year	Depreciation and amounts written off		£	£
		To December 31st, 1951	Year to December 31st, 1952		
£	£	£	£		
202,797	1,047	18,969	1,610	181,171	183,828
188,462	6,169	107,990	8,172	78,469	79,283
54,765	902	24,034	2,534	27,295	30,006
7,746	—	5,041	948	1,757	2,295
				<u>*288,692</u>	<u>295,412</u>
£453,770	£4,220	£156,034	£13,264		

Patents, Trade Marks, Licence Rights, etc.

Shares in Subsidiary Company, Douglas (Sales & Service) Ltd

£	£
—	—
—	—
288,694	295,414

*The Freehold Land, Buildings, Plant, etc., excluding vehicles, were valued by Messrs Henry Butcher & Co as at December 31st, 1952, in the sum of £791,530 which was £504,595 in excess of book value of these assets at that date.

(2) **Douglas Vespa Development Account** - see Directors' Report attached.

Licence, Tools and Development at cost, as at December 31st, 1951

Additions during the year

Less Amortised to date

Written off this year

Transfer to Douglas Vespa Tools Account

(3) **Current Assets Less Liabilities:**

Stock on hand and work in progress	418,561
Douglas Vespa Tools Account	34,415
Sundry Debtors and Unexpired Charges	107,876
Cash in hand	1,421
	<u>562,273</u>
Trade Creditors and Accrued Charges	150,879
Bank Overdraft	130,332
Provision for Service and Warranty and Deferred Maintenance	1,500
	<u>282,711</u>
	<u>279,562</u>

Net Current Assets

(4) (a) **6 per cent Convertible Debenture Stock** (repayable December 31st, 1959) charged on certain Douglas Vespa assets. Stockholders have the option exercisable before December 31st, 1955, to convert their holdings into fully paid 'A' Ordinary Shares at par

(b) **6 per cent Secured Loan** (secured by first charge on certain other Douglas Vespa assets)

(5) **Pre-receiver Liabilities:**

Preferential Creditor	11,647
Bank Overdraft (secured by a charge over all the Company's Assets except those covered by 4 (a) and (b))	758,025
Sundry Creditors and Unclaimed Dividends	124,805
	<u>894,477</u>

85,532	60,000
14,912	25,532
<u>100,444</u>	<u>85,532</u>
15,008	9,975
51,021	—
<u>66,029</u>	<u>9,975</u>
34,415	—
<u>288,694</u>	<u>75,557</u>
418,561	438,692
34,415	—
107,876	75,832
1,421	1,454
<u>562,273</u>	<u>515,978</u>
150,879	160,662
130,332	33,228
1,500	4,160
<u>282,711</u>	<u>198,050</u>
<u>279,562</u>	<u>317,928</u>
60,000	60,000
50,000	—
<u>110,000</u>	<u>60,000</u>
169,562	257,928
11,647	11,647
758,025	741,016
124,805	124,892
<u>894,477</u>	<u>877,555</u>
	<u>619,627</u>
	<u>£248,656</u>

Capital commitments at December 31st, 1952, amounted to approx. £7,000

HAROLD WHITEHEAD } Directors.
C. MCCORMACK

Auditors' Report

We report to the members of Douglas (Kingswood) Limited that we have audited the books and accounts of the Company for the year ended December 31st, 1952, and have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Company so far as appears from our examination of those books.

The foregoing Balance Sheet and annexed Profit and Loss Account are in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given to us the said Balance Sheet and Profit and Loss Account give the information required by the Companies Act, 1948, in the manner so required and they give in the case of the Balance Sheet a true and fair view of the state of the Company's affairs as at December 31st, 1952, and in the case of the Profit and Loss Account a true and fair view of the loss for the year ended on that date.

London, September 14th, 1953

THOMSON McLINTOCK & CO, Chartered Accountants.

DOUGLAS (KINGSWOOD) LIMITED
(W. Walker, J.P., F.A.C.C.A. - Receiver and Manager)
Profit and Loss Account for the year ended December 31st, 1952

	£	£	1951	£
Profit on Trading (after crediting £4,660 relating to prior years, the corresponding figure for 1951 being £18,567)		40,367		39,638
Less Depreciation of Fixed Assets	13,264		13,377	
Amortisation of Douglas Vespa tools	5,033		9,975	
Remuneration of Directors in executive capacity	3,375		2,500	
Auditors' Fees	525		525	
Valuers' fees	2,625		—	
		24,822		26,377
		15,545		13,261
Less Interest:				
Bank and other Interest including guarantee commission	4,743		1,032	
6 per cent Convertible Debenture Stock	3,043		—	
6 per cent Secured Loan	2,594		—	
		10,380		1,032
		5,165		12,229
Less Interest on Pre-receiver Bank Overdraft		31,709		26,627
		26,544		14,398
Net Loss for the Year , subject to provision for loss on stocks			25,000	
Add Further provision for loss on Stock, the major part of which refers to prior years	110,000			
Written off Douglas Vespa Development Account	51,021			
		161,021		25,000
Debit Balance, brought forward		858,656		819,258
		£1,046,221		£858,656

Note.—*Re Subsidiary Company:* The transactions of a Subsidiary, Douglas (Sales & Service) Ltd, which acts solely as a selling agent for the Company, have been included in these accounts. Its operations for the year have resulted in neither profit nor loss.

HAROLD WHITEHEAD } Directors.
C. McCORMACK }

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Fixed Term Annuity

SIR, — Are any of your readers, I wonder, conversant with the tax position which arises when a son makes a deed to pay his parents a fixed amount of money annually for, say, ten years, part of the sum representing the repayment of a loan and part the interest thereon?

Yours faithfully,
ERIC M. BLAIR.

Dunstable, Beds.

[It seems that the son would be entitled to deduct income-tax from the interest portion of the annuity only, and this portion would represent income in the parent's hands. Of the more recent cases on the subject our correspondent should refer to *C.I.R. v. Mallaby-Deeley* ([1938] 17 A.T.C. 503; 23 T.C. 153) and *Goole Corporation v. Aire & Calder Navigation Trustees* ([1942] 21 A.T.C. 156). — Editor.]

Section 459 (14), Companies Act, 1948

SIR, — It would be of great interest to the writer to have the opinions of your readers on the interpretation of Section 459 (14) of the Companies Act of 1948, as this has been the subject of discussion without satisfactory solution.

The example in question is that of a small private company incorporated in November 1947 under the Companies Act of 1929, adopting Table A of that Act, with modifications, as its articles of association. Contained therein was Section 80 of Table A regarding removal of directors which required an extra-

ordinary resolution that could only be carried by a three-quarter majority.

Section 184 of the Companies Act of 1948 requires only an ordinary resolution for the removal of a director and can be effected 'notwithstanding anything in its articles etc.' (Table A, Section 96) and would on the face of it appear to override Section 80 of Table A of the Companies Act of 1929.

Does, however, Section 459 (14) (e) of the Companies Act of 1948 keep Section 80 of Table A of the 1929 Act still operative?

Yours faithfully,
PERPLEXED.

Profits Tax: Non-Distribution Relief

SIR, — We are all familiar with the anomaly by which, although the whole of the available profits of a company may be distributed to its members, there still remains a notional 'relief for non-distribution' which may well give rise to a distribution charge in subsequent years on a distribution of capital profits or on liquidation.

This, in the main, is brought about by the fact that in view of the incidence of profits tax itself, the whole profit as computed for profits tax purposes, can never in fact be distributed.

I suggest that this manifestly inequitable situation could be avoided quite simply by deducting from the computed non-distribution relief a sum equal to profits tax at 20 per cent on the grossed-up

amount of the profits tax payable. This is shown clearly in the following examples.

Example I (whole profit distributed)

	£	£	£
Taxable profit			20,000
Income-tax		9,000	
Profits tax:			
Profit	£20,000 at 22½%	4,500	
Dividend (gross)	14,000		
Non-distribution relief	£6,000 at 20%	1,200	
Net distribution		3,300	
		7,700	
			20,000
Non-distribution relief as above, £6,000 at 20%			1,200
Profits tax, £3 300			
Grossed at 9s, £6,000 at 20%			1,200
Relief carried forward against future distributions			Nil

Example II (partial distribution)

<i>Year I</i>	£	£	£
Profit			20,000
Income-tax		9,000	
Profits tax	£20,000 at 22½%	4,500	
Gross dividend	10,000		
Non-distribution relief	£10,000 at 20%	2,000	
Distribution (net)		2,500	
		5,500	
			17,000
Balance, carried forward			3,000
Non-distribution relief as above, £10,000 at 20%			2,000
Profits tax, £2,500 grossed at 9s, £4,545 at 20%			909
Relief carried forward against future distributions			£1,091

This is equivalent to profits tax on the balance carried forward, £3,000 grossed at 9s = £5,455 at 20% = £1,091.

<i>Year II</i>	£	£
Balance brought forward		3,000
(Assume no taxable profit for the year, but balance wholly distributed)		
Profits tax distribution charge	1,091	
Net distribution	1,909	
		3,000
Distribution charge:		£
Dividend (net £1,909) = gross £3,471 at 20%		694
Add Profits tax (net £1,091) = gross £1,984 at 20%		397
		1,091
Non-distribution relief brought forward	1,091	
" " " carried forward	Nil	

Yours faithfully,
C. E. T.

[We would not say that the present law is 'manifestly inequitable' in this respect. There is no question of withdrawing more relief than has actually been given. A more logical (but less welcome) tidying up of the

law would be to limit non-distribution relief to the excess of the actually distributable profit over the amount distributed. However, the present law may well be considered to be quite complicated enough. - Editor.]

Taxation of Doctors: Danckwerts Award

SIR, - The fault of your correspondent 'C.A.' (your October 24th issue) lies not in his assessments but in his presentation of income under the Danckwerts award.

Unless his doctor ceased practice on June 30th, 1952, his income from this award does not finish at that date but is merely transferred to the doctor's main statement of account.

Thus, unless there has been a radical loss of patients, the income under the 'award' will continue at the rate of £1,000 p.a. at least.

Therefore, in order to compare the income with the assessments, the following statements should be presented:

	<i>Danckwerts Award</i>	<i>Assessment</i>
	£	£
1949-50	250	250
1950-51	1,000	1,000
1951-52	1,000	1,000
1952-53	1,000	1,000
i.e. £250 to June 30th, 1952 plus £750 shown in main statement		
1953-54	£1,000	£1,000 and so on

I have not commented on the fact that the accounting year in this case may end on December 31st, as the rate of remuneration is constant and does not affect the issue.

Incidentally, I have found that the use of the words 'based on' or 'by reference to' the preceding year helps to prevent a client from thinking that he is always a year in arrears with his tax assessments.

Yours faithfully,
London, SE24. F. T. MERRICK.

Accounting for Goods in Transit

SIR, - The query raised by 'Goods in Transit' (October 10th issue) seems to admit of but one solution. It is surely incorrect to adjust actual stock values in order to agree a financial accounts figure; the actual stock on hand must be the figure to go into the balance sheet.

It is not unknown for goods received but not invoiced to have been actually issued to production before the end of the accounting period, and included in the period's sales.

I suggest that all goods received should be entered in the costing records, and, if not invoiced by the end of the accounting period, covered by the creation of 'purchase liabilities', to be added to the period's purchases. Some subsequent adjustment may be necessary if the eventual invoiced prices differ, but this is easily handled. Of course, such invoices, received in the next period's trading, are not debited to purchases in that period.

As for invoices received, but no goods to hand, just ignore them, and carry them forward as a memorandum entry to the next accounting period.

Yours faithfully,
A. C. W. A.

Electric Motors: Initial and Annual Allowances

SIR, - In the building of a new factory a number of electric motors of varying horse-powers were ordered, in excess of the number actually installed, and were put into stock (both physically and financially) to be held as spares against the time when motors needed re-winding etc.

There are two lines of thought as to the procedure that should be adopted when a motor that forms part of the plant is sent for repair.

(1) A new motor to be issued from stock 'on loan' to the plant, the stock-card being documented to this effect. The repaired motor to be taken back into stock at the full book value of the motor taken out to replace it, the cost of repair being charged to revenue. At the end of each year the repaired motors in stock to be revalued to take account of any estimated depreciation and any resulting loss charged to revenue.

(2) When a new motor is withdrawn from stock to replace one sent away for repair it is to be charged to capital account, and the appropriate initial and annual allowances claimed. When the repaired motor is returned it will be kept in a separate stores and adequate records maintained of its movements but no 'stock' value ascribed to it. A new motor to be

withdrawn from the stores for use on this basis only when there is no repaired motor of a similar type available.

If any of your readers have had experience of either method of working, particularly with regard to the decision of the Inspector of Taxes on the question of initial and annual allowances, we shall be pleased to have their views.

Yours faithfully,
RE-WOUND.

'Pressure on Purchase-tax'

SIR, - Under the heading 'Pressure on purchase-tax', you state in your Weekly Notes (October 31st issue) that there is a widely held opinion that:

'a more simple, equitable impost could be devised which would fall at the point of sale to the general public, rather than at the wholesale level.'

However bad in principle the present purchase-tax system may be, it would surely be much more inequitable if the collection of the tax fell upon the retailer. Very many retail businesses are small one-man concerns and as we know in many cases their accounting records are not all that they could be. The amount of income-tax which is lost because of inaccurate records or sometimes a complete lack of records is probably quite substantial.

If these small traders were also responsible for paying over purchase-tax, it seems certain that a further loss to the nation's revenue would result.

Yours faithfully,
ALAN R. KNIGHT.

Kingsbury, London, NW9.

TAXATION CASE

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the *Annotated Tax Cases*.

In re Delhi Electric Supply and Traction Co Ltd

In the High Court of Justice (Chancery Division)
July 30th, 1953
(Before Mr Justice VAISEY)

Income-tax - Foreign tax - United Kingdom company trading in India - Liquidation - Whether tax provable - Companies Act, 1948, Section 302.

The company conducted an electricity undertaking in India until March 2nd, 1947, at which date the undertaking was purchased by the Government of India. The purchase price was paid, for the most part, in the following month, and was remitted to the United Kingdom except for a small portion thereof. On May 25th, 1949, the company went into voluntary liquidation. On March 24th, 1951, the liquidators published in the *Gazette of India*, a notice calling on creditors to prove in the liquidation. The Government of India claimed amounts of income-tax and capital gains tax from the company, and on April 28th, 1951, the Commissioner of Income Tax, Delhi, asked the liquidators

to hold up the liquidation so as to enable proofs for these claims to be formulated and made, and to this course the liquidators agreed. When the proofs of debt were made the liquidators rejected them on the ground that the proofs were for foreign tax, which could not be enforced in this country. The liquidation was a solvent one.

The Government of India appealed against the rejection of the proofs, and contended (a) that the amounts of tax were liabilities within Section 302 of the Companies Act, 1948; (b) that the rule that the Courts of one country would not enforce the revenue laws of another country did not apply to the case; (c) that in any event that rule should not be extended to claims for tax due in a Commonwealth country; (d) that by reason of provision in Acts relating to India, that country was in a special position in this connection.

Held, that the case was governed by the rule that the Courts of the United Kingdom would not enforce revenue debts due to other countries; and that, therefore, the appeal could not succeed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

TAXATION AND RESEARCH COMMITTEE

The seventy-second meeting of the Taxation and Research Committee was held at the Institute on Thursday, October 15th, 1953, at 2 p.m.

Present: Mr G. S. Hamilton (in the chair); Messrs R. D. R. Bateman, M.B.E., T. Fleming Birch, R. P. Brown, J. B. Burnie, P. F. Carpenter, J. Cartner, R. M. Chapman, T.D., A. H. Cheney, J. Clayton, R. W. Cox, R. E. Davis, W. P. Elliott, O.B.E., A. R. English, F. J. Eves, E. S. Foden, F. M. Gilliat, G. G. G. Goult, S. C. Hand, E. A. Harris, N. B. Hart, O.B.E., T.D., W. S. Hayes, G. N. Hunter, S. Kitchen, E. N. Macdonald, D.F.C., G. P. Morgan-Jones, R. J. Ogle, R. A. Palmer, T.D., A. H. Proud, H. F. Strachan, W. F. Tidswell, G. L. C. Touche, C. P. Turner, D. P. Walton, R. Walton, E. F. G. Whinney, E. K. Wright and G. H. Yarnell, with an Assistant Secretary of the Institute and Mr K. H. Saunderson, Assistant to the Taxation and Research Committee.

The President of the Institute, Mr James Blakey, attended the opening of the meeting. In introducing the President, the chairman, Mr G. S. Hamilton, said:

'It is my privilege this year to welcome on behalf of the Taxation and Research Committee, the President of the Institute, Mr J. Blakey, and I should like to say how much we appreciate his coming here today on the first meeting of our new year.

'I am sure that many of us were heartened to hear Mr Blakey's opening address at the autumnal meeting in Scarborough last week and although, as Mr Blakey said, it is not for the Institute to enter into party political controversies, that should not prevent the leaders of the profession from talking from their experience and knowledge in the sound commonsense way which Mr Blakey did, even though it may be contrary to the doctrine of certain politicians. I am sure that we are greatly indebted to Mr Blakey for giving such a lead.

'Today's meeting marks the commencement of the twelfth year of this committee's existence and of the forty-eight members, only five of the original members are now left with us. We feel that over the years this committee has made some contribution to the knowledge of the general body of members as it certainly has added knowledge to the members of the committee itself and we hope that we are playing a not unworthy part in the development of the profession.

'We have at the moment in the hands of the various subcommittees, a number of matters which we hope are nearing conclusion, but the very nature of these makes their examination a somewhat lengthy business.'

SPEECH BY THE PRESIDENT OF THE INSTITUTE

The President then addressed the meeting:

'It is now a well-established practice for the President of the Institute to say a few words to the Taxation and Research Committee at the commencement of a new committee year. I am particularly glad to carry on this tradition because it gives me an opportunity on behalf of the Council of thanking the retiring chairman, Mr Goult, for his services and extending our good wishes to Mr Hamilton for a successful year to come; also to the vice-chairman, Mr Fleming Birch, who I number amongst my personal friends. This committee will no doubt have expressed the thanks that are due from us all to Mr Wilkinson and his assistant, Mr Saunderson.

'Each year sees a few changes in the membership of your committee. Some members present today are attending for the first time and I would therefore like to assure them that the appearance of the President at your meetings is an annual occurrence only. They will not have to bear with me for the rest of the year.

Statements on Technical Matters

'The establishment of your committee in 1942 was, in my opinion, one of the most important steps ever taken by the Institute. It has enabled the Council to embark upon a series of statements, on technical matters, for the guidance of members generally. I think this is a service which is very highly appreciated. Moreover, it would not be practicable for the Council to send in memoranda such as those submitted to the Royal Commission on Taxation of Profits and Income without the enormous assistance given by your committee. The Council and its committees have a great deal of work to do outside the technical field. Membership of the Council would, therefore, be an intolerable burden if its committees had to undertake the whole of the research, detailed consideration and drafting, which are involved in the preparation of Institute publications on technical subjects.

'If Institute publications are to have real value they must be the result of drawing upon the experience of members in all parts of the country and in all kinds of occupations. Your committee provides the machinery to enable this to be done. Your membership includes members from the areas of all the district societies and a substantial number of members in industry, commerce and other occupations outside public accountancy; and in addition you are able to draw upon the experience of the fourteen regional committees to which all major documents are submitted for comment.

'The setting up of the Taxation and Research Committee is thus one of the practical ways in which the Council has demonstrated its desire to encourage as many members of the Institute as possible to contribute to the work and welfare of the Institute, for the benefit of the members as a whole, the future members and indeed the profession as a whole.

Members in Industry and Commerce

'Those of you who are now engaged in industry or commerce received your training in the offices of practising members. Our entire membership of over 17,500 has been trained in public accountancy. I feel sure that those of you who are now otherwise engaged will readily agree with the Council in believing that this is the best form of training for subsequent work outside the practising side of the profession.

'We all start in the same way and it is only after qualifying that we are able to choose different paths according to our inclinations. But whatever paths we choose, we are all chartered accountants. There is no cleavage between one main branch and the other. We all have our part to play in the profession. This is fully recognized by the Council and the establishment of your committee was one of the ways in which the Council has enabled members in a great variety of occupations to make their contribution.

'The training of future members must of course rest with practising members and a very important responsibility it is. Even here, however, the members not in practice have an indirect contribution to make. Articled clerks come into contact with a great variety of accounting records in clients' offices and many of these records are parts of accounting

systems devised, installed and controlled by members in industry and commerce.

'In short, we find at every turn that the two main branches of membership are interdependent. Each has its special features and its limitations. Each has much to gain from close contact with the other through means such as this committee, summer courses and the autumnal meeting which ended a few days ago.

"Together we constitute *one* body, inspired by the desire to maintain and surpass the standards of service and conduct set by our predecessors.'

The President then referred to various matters currently under consideration and concluded his speech with good wishes for the success of the committee's deliberations in the forthcoming year.

The chairman proposed a vote of thanks to the President which was carried with acclamation. The President then left the meeting.

Mr G. G. G. Goult

A hearty vote of thanks was accorded to Mr G. G. G. Goult for his services as chairman during the year 1952-53.

Membership

It was agreed that letters of appreciation of their services be sent to the following who retired from membership of the committee on September 30th,

1953: Messrs K. W. Bevan (1949-53), W. G. Campbell (1942-53), E. H. Davison (1948-53), R. B. Dixon (1948-53), R. A. Marden (1950-53), J. W. G. Mitchell (1949-53), H. Norris (1949-53), P. M. Rees (1942-53) and C. N. Storey (1951-53).

Standing Sub-committees

Reports from the following standing sub-committees were received:

General Advisory Sub-committee (including progress reports by three drafting sub-committees).

Management Accounting Sub-committee (including progress reports by two drafting sub-committees).

Taxation Sub-committee.

Ad hoc Sub-committees

Reports were received from three special sub-committees.

Future Meetings

The next meeting was fixed for Thursday, December 10th, 1953, at 2 p.m., and the following dates were provisionally arranged for meetings during 1954: Thursday, February 18th; Thursday, April 15th; Thursday, June 17th; Thursday, September 16th; Thursday, October 21st; Thursday, December 16th.

NEW TENDENCIES IN PUBLISHED ACCOUNTS INDUSTRIALIZATION OF THE NETHERLANDS Annual Conference in Amsterdam

Published accounts and the industrialization of the Netherlands were the two subjects discussed at the 1953 annual conference - the 'yearday' - of the Netherlands Institute of Accountants, which was held in Amsterdam on October 3rd, in the Royal Institution for the Tropics.

Accountants from Belgium, Denmark, England, Finland, Norway, the United States of America and Western Germany were present. Some 400 members of the Netherlands Institute (more than one-third of the total membership) attended the conference, as well as representatives of the Dutch Government and other authorities, the universities and other professional bodies. His Excellency Mr Kranenberg, Secretary of State for War, was also one of the guests.

The President of the Netherlands Institute, Professor Keuzenkamp, Professor of the Economic College at Rotterdam and a practising accountant, was in the chair.

The English Representatives

As in previous years, invitations had been sent to bodies of accountants in several other countries:

The Institute of Chartered Accountants in England and Wales was represented by Mr Douglas A. Clarke, LL.B., F.C.A., and Mr Alan MacIver, M.C., B.A., Secretary of the Institute; The Institute of Chartered Accountants of Scotland by Mr C. I. R. Hutton, C.A.; The Society of Incorporated Accountants and Auditors by the President, Mr Percy Barrowcliff, F.S.A.A.; and The Association of

Certified and Corporate Accountants by the President, Lord Latham, J.P., F.A.C.C.A., and the Vice-President, Mr MacFarlane Gray, F.A.C.C.A. Mr C. A. Reid, C.A., of London, was also present.

The American Institute of Accountants was represented by Mr J. William Hope, C.P.A., Immediate Past President of the American Institute of Accountants, of Bridgeport, Connecticut; the Danish Foreningen af Statsautoriserede Revisorer by Mr Aage Nielsen and Mr V. Spang-Thomsen, of Copenhagen, and Mr Borge Hansen, of Copenhagen, was also present; the Norwegian Statsautoriserede Revisorer Forening by Mr Ludvig Larssen, of Stavanger; the Finnish Foreningen C.G.R., by Mr Börge Forsström, of Helsinki; the German Institut der Wirtschaftsprüfer by Dr W. P. Trescher, of Düsseldorf; and the Belgian Nationaal College der Accountants by Mr Theo Pirenne, of Antwerp.

The President introduced the representatives of visiting countries; the English, Belgian and German representatives were in turn welcomed in short speeches in their own languages, while the representatives of the Scandinavian and northern countries were welcomed in English, which was used as an international language. Apart from these introductions, all proceedings were in the Dutch language.

International Development of the Profession

In his opening address, the President of the Netherlands Institute said that the profession of the accountant is international, in that it is found all over the world. The development of the profession has, how-

ever, arisen nationally in accordance with the needs of the economic life of each country. Exchange of views and experiences between accountants in different countries has so far been, in the main, incidental, but has been fostered by international congresses of accountants held at long intervals.

The Amsterdam congress of 1926 was followed by others: in New York in 1929; in London in 1933; in Berlin in 1938; and after the war in London in 1952. With the holding of the next international congress in Holland in 1957 there will then have been seven congresses (including that in St Louis in 1904) of which two will have been held in the Netherlands, two in England, two in the United States and one in Germany.

In the long interval between two international congresses, what can be done to spread professional opinion internationally? The professional accountancy press could do a great deal to spread knowledge of the views and practice in other countries. International interest in the Dutch profession was already growing in accountancy journals, particularly in England, the United States, Canada and Denmark.

With this divergence in practice in the different countries, it is, continued the President, desirable to consider whether it is not possible to find an international level (*niveau*) at which accountants in different countries may be able to meet as colleagues and fully understand each other's work. For this as a starting-point, it would be necessary to have a common and accepted conception of the functions, obligations and work of the professional accountant.

It is the earnest hope of the Netherlands Institute, the President concluded, that the international congress in Holland in 1957 will not only provide mutual information on professional problems, but will also make another contribution towards mutual understanding of the outlook and the professional work of accountants in other countries.

Industrialization in the Netherlands

The morning session was of general economic interest. Dr P. Schoenmaker, director of the Artillerie-Inrichtingen (Government Ordnance factories) at Hembrug, gave an address on 'The direction and the tempo of industrialization in the Netherlands' in relation to increase of industrial production and national income, greater savings and capital formation and a broadening of the volume of employment. With the strong growth of population there was need for the fullest utilization of the limited national resources. It is necessary to import metal ores, textile raw materials, timber, leather and rubber. While it is true that the favourable location of the Netherlands and a natural aptitude for business are national assets, it will be necessary, in order to maintain equilibrium in the balance of payments, to increase exports substantially if industrialization is to be expanded.

Spectacular new industrialization is not at present to be expected in Holland. Industry must supply goods of high quality at a competitive price which still yields adequate profit. Technical qualities must be still further developed by research, education and vocational training, and the taste and preferences of the various export markets must be closely studied.

Industrialization is essentially the task of private enterprise which takes the initiative and bears the risks, but valuable support may be given by the

Government which, particularly in the years after the war, has had a greater influence not only in national affairs but also in relation to world trade and to the integration of Western Europe.

There would be a heavy task over the next ten or twenty years in providing employment for a much larger population and in increasing the proportion of the production that was exported. Agriculture, commerce and the professions could all contribute and much would depend on school education, technical training and production and market research. The accountancy profession could give most help in relation to costs.

An Economic Debate

In the discussion which followed, the first speaker was Professor Korteweg, of the Economic Faculty of Groningen University, who gave a commentary on the address, particularly in relation to savings, capital formation and the provision of risk capital. He also referred to statistical tables which showed the great relative advances of the chemical and textile industries in the Netherlands between 1938 and 1951.

Professor Haccou, of Delft University, raised the question as to how far one should be optimistic of the future. He felt somewhat pessimistic as to whether the supply of research workers could meet the ever-expanding needs for research.

Industrialization had not proceeded as quickly as he had hoped and the supply of risk capital for replacement of the plant was closely connected with taxation. He felt optimistic on the technical side in which automatic production could be developed and he was delighted with the way that Dutch commercial life co-operated with its industries and realized the importance of export markets.

Planning and Directing Authority

Lord Latham contended that there was in some countries now a great danger of over-industrialization and insufficient production of raw materials and food especially for the undernourished. There should be a proper relation between saving and investment and between capital formation and current consumption and this must surely require a planning and directing authority who could take national and international factors into account.

The decisions could not be left to individuals, since even enlightened self-interest has led to a great waste of natural resources. While acknowledging that private enterprise has an inspiration of endeavour and effort, it must be so directed as to secure the maximum welfare.

In reply to the debate, Dr Schoenmaker expressed his own belief that on a long view the future of the Netherlands depended on its people, in their training and in the good use that is made of men.

Speaking now in English, Dr Schoenmaker said that as a director of a Government enterprise he was in a somewhat delicate position. He confessed that in his heart he was a supporter of private enterprise and even in his present position regarded it as his duty to produce with Government capital armaments of good quality at low prices. It could only make for an additional sense of responsibility if the capital were provided by individuals.

Published Annual Accounts

'New trends in published annual accounts' was the

subject for the afternoon session. An address of over thirty printed pages had been prepared by Mr G. L. Groeneveld, ec. drs., a practising member of the Netherlands Institute, and had been circulated in advance to the members.

Some two-thirds of the address was devoted to the application of replacement value in published accounts, with particular reference to the accounts of N. V. Philips' Gloeilampenfabrieken. Until 1950 the accounts of that company showed the fixed assets in the balance sheet at one guilder. In 1951 the company changed over to showing the fixed assets and also the stocks at replacement value. Two changes of method were thus introduced together, the elimination of the secret reserve and the establishment of replacement values.

The speaker used this event as the occasion for discussing and comparing the merits and demerits of secret reserves and replacement value accounting.

Secret Reserves

Mr Groeneveld said that a secret reserve system had been justified as protecting the producer against the consequences of cyclical price changes. There may often be advantage if the disclosed annual result is a fair appraisal of the maintainable profit of the business, rather than a more correct but fortuitous figure which depends on the cost and the date of purchase of assets. The current profitability of the business may be of more importance than the correctness of asset values.

The accountant in the Netherlands could not withhold his approval to accounts in which secret reserves exist or are being formed if he is of opinion that their creation is for a good reason, but he would not approve accounts in which undisclosed withdrawals from secret reserves are being made. On the other hand, the formation of secret reserves may often be haphazard and arbitrary and the very secrecy did not promote trust and confidence in accounting and business relationships.

Replacement Values

The speaker considered that profit is determined with more significance by charging replacement costs against income, rather than by a comparison of asset values at the beginning and end of the accounting period. Whether in costing, in price-fixing or in annual accounts, the same principle can be universally applied.

The use of current replacement costs brings benefit when dealing with various problems, such as depreciation in the value of currency; price changes through improvements in the technique of production; comparison of the profitability of independent producing units; and also when deciding how much profit can be withdrawn from the business. Accounting with replacement values assists the management to retain part of the income surplus not only for financing replacements but also for financing the necessary expansion of the business.

In the debate which followed, Professor J. L. Meij, of Groningen University, discussed replacement value and considered that the comparison with secret reserves was not a happy one. Professor van Rietschoten, of Amsterdam City University and himself a practising accountant, discussed the earlier preparation of accounts and its effect on the work of public and internal accountants. Mr Goudekot, a former member of the council of the Netherlands Institute and internal accountant to the Philips' organization, was in agree-

ment with the main speaker though he doubted whether there was a close relation between secret reserves and replacement value.

English Institute's Recommendations

Speaking in the Dutch language, Mr Douglas Clarke referred to the important effect of the recommendations of the English Institute on the terms of the Companies Act, 1948. Since 1948, except for banks and other special undertakings, the formation of secret reserves is no longer permitted, though secret reserves can still exist through increase in value of unrealized assets or through an excess of depreciation written-off before 1948.

Under Recommendation 12, issued in January 1949, amounts set aside against an increase in replacement value are reserves openly made. Under Recommendation 15, issued in May 1952, annual accounts still rest on the general principle of historical cost price, though it is recognized that profit computed in this way may not be useful for all purposes. The time has not come for the statement of new accountancy principles, but accountants in England are encouraged to experiment in order to ascertain methods by which the consequences of change in the value of money can be computed, with a view to publishing the results in statements supplementary to the annual accounts.

Conference Dinner

In the evening, the President was in the chair at a dinner held at *The Amstel Hotel*, attended by members of the Netherlands Institute and their ladies. Dr and Mevrouw Schoenmaker and the representatives of other countries with their ladies were the guests. After the loyal toasts, Mr Goudekot proposed the toast to the representatives from the United Kingdom, and this was followed by toasts to the representatives of the other countries.

Returning thanks on behalf of the English Institute, Mr Douglas Clarke said that Mr J. Kraayenhof's visit during the year to address the London and District Society of Chartered Accountants on international auditing practice had been greatly appreciated.

The Seventh International Congress to be held in Holland in 1957 will necessarily give rise to many problems for the Netherlands Institute, and its organization will require much work and the general support of members and their ladies; but it will also be the occasion for the widening of knowledge of the Dutch way of life among the many from abroad who will attend the Congress.

Each of the bodies of accountants represented at the Yearday Conference had an opportunity to reply. In all, there were some sixteen speeches – a formidable programme – but nearly all the speeches were short and with the careful planning of the hosts, the long evening retained its interest throughout.

Conference Arrangements

The Conference arrangements in Amsterdam, entrusted to Mr H. C. Treffers, honorary secretary and a member of the Council of the Netherlands Institute, and to Mr de Bruyne, director, were carried through with efficiency and distinction. The English representatives will remember the many ways in which honour was paid to their country and the warmth of the welcome they received from so many Dutch colleagues.

THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS RECORD ATTENDANCE AT ANNUAL DINNER

The annual dinner of the Leeds, Bradford and District Society of Chartered Accountants was held at *The Queens Hotel*, Leeds, on Friday, October 30th. The President of the Society, Mr Cecil L. Davies, F.C.A., presided over a company of nearly 350 members and guests – a record – who were received by Mr Davies and Mr James Blakey, F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the guests were Sir Charles R. Morris, M.A., LL.D., Vice-Chancellor of the University of Leeds; Mr Frederick Grant, M.C., Q.C., Independent Chairman of the British Iron and Steel Federation; Alderman Donald G. Cowling, M.B.E., J.P.; The Lord Mayor of Leeds; and

Messrs G. U. Averdick (*President, Bradford Chamber of Commerce*); C. W. Banks (*Vice-President, Leeds Chamber of Commerce*); R. G. Beard, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); C. W. Boyce, C.B.E., F.C.A. (*Member of the Council of the Institute*); T. B. Bramham, F.A.I., M.R.SAN.I. (*Chairman, Yorkshire Branch, Chartered Auctioneers' and Estate Agents' Institute*); D. H. Buchanan (*Chairman, Leeds and District Centre of the Institute of Bankers*); A. W. Cockerham, F.A.C.C.A. (*Vice-President, West Yorkshire Society of Certified and Corporate Accountants*).

Messrs W. G. Densem, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); Derek du Pré Editor, *'The Accountant'*; N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); J. S. F. Hill, F.C.A. (*President, Nottingham Society of Chartered Accountants*); G. A. N. Hirst, T.D., M.P. (*President, Leeds Chamber of Commerce*); Major T. H. Ives, F.L.A.S. (*Member of the Committee, Yorkshire Land Agents' Society*); Mr F. M. Kellett, F.C.A. (*President, Northern Society of Chartered Accountants*);

Messrs A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); D. McMichael, F.S.A.A. (*President, Incorporated Accountants District Society of Yorkshire*); G. P. Morgan-Jones, M.A., F.C.A. (*President, South-Eastern Society of Chartered Accountants*); F. A. Richardson, F.R.I.C.S., F.A.I., M.R.SAN.I. (*Hon. Secretary, Yorkshire Branch, Royal Institution of Chartered Surveyors*); J. A. W. Smith (*President, Bradford Incorporated Law Society*); F. G. Stringer, A.S.A.A. (*President, Incorporated Accountants Bradford and District Society*); E. Duncan Taylor, F.C.A. (*Member, Council of the Institute*); W. S. Theaker, LL.B. (*President, Leeds Incorporated Law Society*); G. V. Williams (*H.M. Principal Inspector of Taxes, Leeds*); H. L. Wortley (*Chairman, Bradford and District Centre of The Institute of Bankers*).

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Frederick Grant, Q.C., who said:

'For twenty years or more I have worked with many practitioners in the art, the science, the mystery of accountancy and I have many friends in this great Institute which has reached the respectable age of 83. I always marvel at the breadth of their knowledge and the agility of their minds.'

Mr Grant said that when one looked at the Institute's examinations one realized that those who passed were

equipped to deal with every situation likely to be met or every problem likely to arise.

The Institute's Investigation Committee

Responding to the toast, Mr James Blakey said:

'I thought it rather appropriate to speak on the question of professional ethics and the working of that important committee, called the Investigation Committee. . . .

'The Investigation Committee, on receipt of a complaint against a member, go into the facts after receiving the observations of the member complained against and their duty is to see if there is a *prima facie* case to put before the Disciplinary Committee. To some extent they act as a grand jury.

'The procedure, after receipt of observations is, in any complicated matter, to circulate amongst the nine members who form the committee, all correspondence together with a summary form which gives the order of circulation and a request for short comments on the particular complaint. This has the effect of speeding up the investigation so that the members are *au fait* with the particular case at their monthly meeting.

'Furthermore, they have the right to ask for the attendance of either party to amplify and make clear the contents of the correspondence and it is in this connection that the chairman has to exercise a great deal of tact to make quite sure that the person interviewed understands the interview is not a hearing of the case.'

Prevention Better than Cure

'In addition, this committee, under Bye-law 105, receives any request for advice by members. You will see that the Institute is out to help a member on the lines more of prevention being better than cure, as it is found that a number of our members, owing to their isolation and being without partners, refrain from consulting their professional colleagues and may often err in ignorance.

'The work of this committee, while being very interesting, is also very responsible and indeed voluminous, but one must not take it from that that our members are lacking in professional ethics, but rather that the standard set by the Institute is particularly high, as I have no doubt you will agree it should be.'

He continued:

'There is just one other point which touches on human nature and it is a personal one to me and that is that if a member feels aggrieved he should write to the Institute because no one keeps a grievance to himself and he will naturally talk to his colleagues and friends about it, probably giving the person complained about quite a wrong character. The tendency I found was that when someone thought he had a grievance and you suggested his writing to the Institute, his easy excuse was to say "Why bother? The Institute never does anything about it." Now that is an entirely false impression and I think that anyone who has a grievance should get it out of his system and that is one of the reasons for the existence of this committee.'

Mr Blakey paid tribute to Mr G. N. Hunter, J.P., F.C.A., and Mr K. G. Warriner, F.C.A., for their work as joint secretaries of the Leeds and Bradford District Society.

The toast of 'Our Guests' was proposed by Mr Cecil L. Davies and Sir Charles Morris replied.

THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

ANNUAL DINNER AND DANCE

Presentation to Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S.

The Association of Certified and Corporate Accountants held their first annual dinner and dance for thirteen years last Tuesday, at Grosvenor House, Park Lane, London, W1, when nearly 550 members and guests were received by the President, the Rt. Hon. Lord Latham, J.P., F.A.C.C.A., and by the Director, Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S., and Mrs Latham.

Among those present were:

Mr C. P. Barrowcliff, F.S.A.A. (*President, The Society of Incorporated Accountants and Auditors*) and Mrs Barrowcliff; Mr J. Blakey, F.C.A. (*President, The Institute of Chartered Accountants in England and Wales*), and Mrs Blakey; The Rt. Hon. J. Chuter Ede, P.C., D.L., J.P., M.P.; Sir Wyndham Hirst, K.B.E. (*Public Trustee*), and Lady Hirst; Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., D.C.L., J.P., F.C.A., and Lady Howitt; Sir Reginald Manningham-Buller, Q.C., M.P. (*Solicitor-General*); Dr A. H. Marshall, B.Sc., Ph.D., F.I.M.T.A., F.S.A.A. (*President, The Institute of Municipal Treasurers and Accountants*), and Mrs Marshall; The Rt. Hon. Lord Radcliffe, P.C., G.B.E. (*Chairman, Royal Commission on Taxation*), and Lady Radcliffe; Mr F. W. H. Saunders, F.C.W.A. (*President, The Institute of Cost and Works Accountants*), and Mrs Saunders; The Rt. Hon. Sir Hartley Shawcross, P.C., Q.C., M.P. (*Chairman of the Bar Council*), and Lady Shawcross; Mr and Mrs Ronald Staples; The Rt. Hon. Sir Walter Womersley, Bt., P.C., J.P.

Professor W. T. Baxter, and Mrs Baxter; Mr H. Beer, C.B., and Mrs Beer; Mr S. J. D. Berger, M.C., and Mrs Berger; Alderman Mrs D. Bolton, J.P. (*Chairman of London County Council*); Mr D. Bolton; Mr Roy Borneman, Q.C., and Mrs Borneman; Mr and Mrs W. W. Boulton; Mr and Mrs L. F. Cheyney; Mr and Mrs J. Cowen; Mr I. A. F. Craig, O.B.E., and Mrs Craig; Mr A. L. de Bruyne; Mr and Mrs Derek du Pré.

Mr and Mrs H. Eason; Mr W. F. Gardner, C.B.E., and Mrs Gardner; Mr A. A. Garrett, M.B.E., and Mrs Garrett; Mr and Mrs F. Gratwick; Sir Henry Gregory, K.C.M.G., C.B., and Lady Gregory; Mr and Mrs D. V. House; Mr and Mrs M. A. Liddell; Mr and Mrs T. Lister; Mr T. G. Lund, C.B.E., and Mrs Lund; Mr and Mrs W. Macfarlane Gray; Dr A. J. McIntosh and Mrs McIntosh; Mr A. S. MacIver, M.C., and Mrs MacIver; Mr E. H. S. Marker, C.B., and Mrs Marker.

Mr W. Charles Norton, M.B.E., M.C., and Mrs Norton; Mr H. Roy Pochin, J.P., and Mrs Pochin; Mrs F. A. Pond; Mr C. W. Holroyd Sergeant; Mr and Mrs S. A. Spofforth; Councillor A. V. Sully, J.P., and Mrs Sully (*Mayor and Mayoress of Hendon*); Mr H. C. Treffers; Mr and Mrs Francis Whitmore.

The Profession of Accountancy

The toast of 'The Association and the profession', was proposed by The Rt. Hon. Lord Radcliffe, P.C., G.B.E., who, speaking of the comparative youth of the profession of accountancy, said:

'When I think of your profession, I sometimes think how very lucky you are. You are a profession which in the course of the last one hundred years or so has become one of the professional callings of this country, and you are, compared with some of us, one of the youngest professions,

... you have not become merely a type in the eyes of society - as we of the older professions, the church, medicine and the law have become. ...'

He continued:

You seem to me to be having the best of both worlds. You do not even assume a uniform like the clergy and the lawyer - and even the doctor to do his work - unless a partiality for the black hat, short black coat and striped trousers is an indication of approaching a general uniform.' (Laughter.)

Management Accounting

Replying to the toast, Lord Latham said:

'There can, I think, be little doubt that before the war in this country we failed on the whole to appreciate the value of statistics as the means of measuring or estimating the trends and tendencies of business affairs. We accepted figures which told us what had happened - sometimes with indifferent grace when the results shown were displeasing. But statistics and statistical evaluation which would, as it were, help to project the future were sadly lacking, and looking back we can have little doubt that the economy of the nation suffered from this.

'However, in the last decade, under the impulse of war and post-war needs and urgencies, we have come to recognize how valuable are the statistics, charts and graphs, properly prepared and intelligently used, as a basis for reasonable and reliable projection of what the course of affairs is likely to be in the future. How they can narrow the field of the unpredictable and widen that of the predictable is enabling us to see in the mirror of today something of what things are likely to be tomorrow. Not, of course, that we should aspire to become business astrologers: history shows, I think, that astrology was, by and large, an uncertain and even dangerous occupation.' (Laughter.)

After saying that we have learned much from the U.S.A in the field of management accounting, the President commented on the 'risk of over-elaboration' and asked 'Are too many memoranda becoming a hindrance to decision and action?'

Presentation to Mr Jack Latham

The President then said that he was privileged to portray to guests and members the highlight of the evening's proceedings - that of paying tribute to Mr J. C. Latham, who, until the first of May last, was the Secretary of the Association, and who had now become Director and Consultant.

He continued:

'As many of you in this room will know, Jack Latham and myself are brothers, a circumstance which we have both achieved mutually to bear with appropriate fortitude throughout our lives - and not without some measure of satisfaction.' (Laughter.)

'Tonight we pay public tribute to a man who has given thirty-one years of unremitting and devoted service - not only to the Association, but also to the profession generally.' (Applause.)

'He came to the Association as secretary in years fraught with many difficulties and many problems - the formative years, and he has been fortunate enough to see his efforts

and his work very largely crowned with success, and certainly has been able to witness the achievements and recognition, both public and professional, of the Association.'

Turning to Mrs Latham, the President said that she had given a great contribution over the last thirty-one years – not only a contribution of support and encouragement to her husband but a contribution to the success and achievement of the Association itself.

She had encouraged and fortified her husband in the days of difficult and complex problems, had endured his absences and had suffered a seclusion while he had been engulfed in the affairs of the Association. Mrs Latham was therefore invited to share equally with her husband the tribute which was being publicly paid to them tonight. (Loud applause.)

A Tribute from Sir Harold Howitt

Tribute on behalf of other professional bodies of accountants was then paid to Mr Latham by Sir Harold Howitt, who expressed his pleasure at being in a position to echo the remarks of Lord Latham. He said that books had been written on the subject of 'what every wife knows' (laughter), but that nothing had been written about what every brother knows (laughter), and it must therefore have been especially pleasing for Jack Latham that his brother should speak not only as he did, but in a way that obviously rang true.

Of Mr Latham's association with other members of the profession, Sir Harold said:

'We have had the greatest friendliness and co-operation from him ever since we have been associated, and I am sure that when the history of the Association is written, no name will stand higher than that of Jack Latham, its great secretary and founder member.' (Applause.)

Mr Jack Latham's Reply

In his reply, Mr J. C. Latham said that he would be lacking in human feeling if he did not feel greatly moved by the kind things that had been said about himself and about Mrs Latham by representatives of the Association and by members of other professional bodies whom, as Secretary of the Association, it had been his privilege to serve. He continued:

'Looking back on thirty odd years of eventful and professional history, I am not thinking so much of my work and activities; I am thinking rather of those with whom it has been my privilege to meet and work. I am thinking of many happy and personal associations all of which have had that priceless attribute of good fellowship so warmly reflected in your reception of this toast tonight.

'I was very much touched by the references that have been made to my wife. All through the years she has shown great understanding and interest in my work – she has cheerfully borne my frequent absences from home and has been a tower of strength and support to me in the social side of my work, and she is invited to share your kindly acknowledgement of our dual efforts.' (Applause.)

In conclusion, Mr Latham expressed his deep gratitude for the bountiful generosity manifested by the marvellous presents, and for the unforgettable evening which would linger in his memory throughout his life.

The toast of 'The Guests' was proposed by Mr W. Macfarlane Gray, F.A.C.C.A., Vice-President of the Association. The Rt. Hon. Sir Hartley Shawcross, P.C., Q.C., M.P., responded.

Dancing continued until 1 a.m. to Sydney Lipton's orchestra.

An article 'Retirement of Mr J. C. Latham, D.L.', with a photograph, appeared in *The Accountant*, May and, 1953.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS MANCHESTER AND DISTRICT BRANCH DINNER

The annual dinner and dance of the Manchester and District Branch of the Institute of Cost and Works Accountants was held at *The Midland Hotel*, Manchester, on October 30th, and was attended by 154 members and guests who were received by Mr James McAulay, F.C.W.A., President of the Branch, and Mrs McAulay, together with Mr F. W. H. Saunders, F.C.W.A., President of the Institute, and Mrs Saunders.

The toast of 'The Institute of Cost and Works Accountants' was proposed by Sir Charles Renold, J.P., who said that the Institute had laid a coping-stone on its achievements by the introduction of its new fellowship in management accountancy.

Responding, Mr Saunders said that the establishment of the Institute's fellowship in management accountancy aims at filling a gap.

'But it does more than that,' he added; 'it is intended to serve the best interests of industry as well as the whole profession.'

He continued:

'The first examination for the fellowship in management accountancy will be held at various centres in the United Kingdom in a few weeks time. It was not expected that there would be more than a handful of men who were

prepared to attempt this examination at so early a date, but I understand that there are to be something like 100 candidates, which seems to me quite a considerable figure and augurs well for the future of the scheme.'

The number of candidates presenting themselves for the Institute Associate examinations, he said, 'has reached the somewhat impressive figure of over 6,000 per annum'.

'The pass percentage – from the candidates' viewpoint – may not be so encouraging but there is consolation to those who do not succeed, that there are still opportunities to make subsequent attempts.'

The toast of 'The Guests' was proposed by Mr James McAulay, and Mr N. A. Morling responded.

Dancing continued until 1 a.m., with Mr W. Shepherd, F.C.W.A., acting as master of ceremonies.

Among those present were:

Mr V. A. Bell, F.S.A.A., and Mrs Bell; Mr S. J. D. Berger, M.C., F.C.I.S. (*Director and Secretary of the Institute*), and Mrs Berger; Mr J. Borsay, F.C.W.A., and Mrs Borsay; Mr C. V. Jarvis, F.A.C.C.A., and Mrs Jarvis; Mr N. A. Morling, B.A., M.COM., and Mrs Morling; Mr L. W. Seddon, F.C.W.A.; Mr H. Smith, F.C.W.A., and Mrs Smith; Mr E. G. Turner, M.C., F.C.A. (*President, The Manchester Society of Chartered Accountants*), and Mrs Turner.

NOTES AND NOTICES

Personal

Messrs CARLILL, BURKINSHAW & FERGUSON, Chartered Accountants, of 2 Parliament Street, Hull, announce that as from November 1st, 1953, they have admitted into partnership Mr HERBERT GEORGE SERGEANT, A.C.A., who has been associated with the firm for a number of years. The style of the firm will remain unchanged.

MESSRS D. & A. CUTHBERTSON, PROVAN & STRONG, Chartered Accountants, of 190 West George Street, Glasgow, C2, announce that they have assumed as a partner, as from November 1st, 1953, Mr WILLIAM WATSON MCGILL, C.A., who for some years past has been principal assistant. The style of the firm will remain unchanged.

MESSRS THOMAS B. CARTER & Co, Chartered Accountants, of Williams Deacon's Bank Chambers, 2 Princess Road, Manchester, announce that they have admitted Mr R. C. HALSTEAD, A.C.A., as a partner from November 1st, 1953. The practice will be carried on under the name of CARTER, HALSTEAD & Co.

MESSRS FRANCIS S. CLARK & Co, of 67A Queen Street, Newton Abbot, and of Teignmouth, announce that, as from October 1st, 1953, they have taken into partnership Mr RAYMOND D. KEYWORTH, A.C.A., who served his articles with the firm and who has continued with the firm since qualifying in 1952. The style of the firm remains unchanged.

MR WILLIAM J. MILBURN, F.C.A., announces that he has taken into partnership Mr W. R. DAWSON, A.C.A. The practice will be carried on in the name of MILBURN & DAWSON, Chartered Accountants, at Lloyds Bank Chambers, King Street, Penrith. Telephone: Penrith 2210.

Professional Notes

Mr W. E. Mackie, C.A., has been appointed secretary to the board of the parent company of William Mallinson & Sons Ltd, and will combine these duties with his present post as chief accountant to the group.

Mr Alex Grieve, A.C.A., has been appointed secretary to John Brown & Co Ltd.

Mr James Whitton, M.A., B.COM., C.A., senior partner in the firm of John M. Geoghegan & Co, Chartered Accountants, of Edinburgh, has been appointed a director of Scotsman Publications Ltd,

the publishers of *The Scotsman* and the *Edinburgh Evening Dispatch*.

Mr P. J. Greaves, M.A., A.C.A., and Mr J. S. Harrison, F.C.A., have been appointed directors of the North Central Wagon and Finance Co Ltd.

The Work of the Institute

Mr Alan S. MacIver, M.C., B.A., Secretary of The Institute of Chartered Accountants in England and Wales, addressed members of the Leeds, Bradford & District Society of Chartered Accountants on the subject of 'The work of the Institute' after a luncheon on Friday, October 30th. There were fifty-two members present.

Manchester Society of Chartered Accountants

A meeting of the Manchester Society of Chartered Accountants will be held at the Chartered Accountants' Hall, 60 Spring Gardens, next Monday, November 9th, at 6 p.m., when Mr H. P. Finn, A.C.A., will speak on 'The presentation of accounting information to management'.

Refreshments will be served in the Three Shires Restaurant at 5.30 p.m.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m.: Lecture (at Caxton Hall, Victoria Street, SW1) - 'Insolvency', by Mr Chas. E. M. Emmerson, F.C.A.

Tuesday, 6 p.m.: Demonstration of mechanized accounting (limited number).

Thursday, 5.30 p.m.: Joint debate with the Solicitors' Articled Clerks' Society. Motion - 'That words tell fewer lies than figures'.

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students. *5.15 p.m.*: Introductory course lectures on (1) 'The functions and form of the profit and loss account and balance sheet'; (2) 'The ownership and control of businesses'.

Assistant Official Receiver Appointed

The Board of Trade have appointed Mr Walter William Jordan to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Nottingham, Derby and Long Eaton, Burton-on-Trent, Boston, Leicester, Lincoln and Horncastle. The appointment takes effect from October 19th, 1953.

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VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Incorporated Accountants' Lodge

The installation meeting was held on October 27th, 1953, at Freemasons' Hall, London, WC2, at which W. Bro. W. H. C. Wayne installed his successor, Bro. J. A. Jackson as *W.M.*

W. Bro. Jackson invested the following officers: Bro. J. C. Chaumeton, *S.W.*; W. Bro. W. F. Edwards, *J.W.*; W. Bro. W. J. Crafter, *Treasurer*; W. Bro. A. S. Darr, *Secretary*; W. Bro. E. J. P. Garratt, *D.C.*; Bro. E. B. Trimmer, *S.D.*; W. Bro. E. J. Hakim, *J.D.*; W. Bro. A. V. Hussey, *A.D.C.*; W. Bro. A. A. Garrett, *Almoner*; W. Bro. G. F. D. Rice, *I.G.*; Bros. H. L. Brown, F. R. Marshall, A. Armit, F. A. Roberts, *Stewards*; W. Bro. A. C. Chitty, *Tyler*.

A very large number of guests were present.

The secretary is Mr A. S. Darr, 35 New Broad Street, London, EC2.

The Philippine Institute of Accountants

The seventh annual convention of the Philippine Institute of Accountants will be held on November 28th-29th in Manila, Philippines.

Chartered Accountants' Hockey Club

CHARTERED ACCOUNTANTS 4; LAW SOCIETY 2

The Institute first XI won its fifth annual hockey match with the Law Society on October 21st at the Old Deer Park, Richmond. The Law Society and the Institute have now each won two games and have shared the honours in one.

The Institute showed the better combination in the first half and J. T. Hutchinson scored from a clever reverse stick pass by R. J. C. Mallinson soon after the commencement. The game then alternated from one end of the field to the other with P. C. Kay and A. E. Day blocking the Law Society attack. M. R. T. Lowth fed his forwards well and from another attacking movement J. T. Hutchinson scored again. Before the Law Society had settled down to another sortie, J. T. Hutchinson made an individual effort from his '25' and completed his 'hat-trick'. The Law Society then attacked with determination and J. S. Kinross, in goal, was tested repeatedly. From a long corner, the Law Society centre-forward drove a rising ball into the net, to make the score 3-1 before half-time.

The Law Society had the better of the exchanges in the second half but the Institute defence held firm. During a mêlée in the Law Society goal-mouth, R. J. C. Mallinson scored. The Law Society then pressed home their attacks and their centre-forward scored once again.

Law Reports

'The Times' Law Reports which ceased publication in December 1952 have been replaced by *The Weekly Law Reports* which are published by The Council of Law Reporting for England and Wales, the publishers of *The Law Reports*.

Together, *The Law Reports* and *The Weekly Law Reports* cover all cases in the High Court, the Court of Appeal, the Privy Council and the House of Lords, which should be reported, including Revenue Cases. *The Law Reports* contain counsel's argument and the judgments as revised by the judges concerned.

Further information may be obtained from the Secretary, The Council of Law Reporting for England and Wales, 3 Stone Buildings, Lincoln's Inn, London, WC2.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 9TH, 1878

"ACCOUNTANT SITUATION LIST"

Replies to be addressed to the Number stated at the Accountant Office, 62 Gracechurch-street, E.C.

NO.	DESCRIPTION.	EXPERIENCE.	SALARY.	AGE.
45.	Book-keeping, double entry, German, French and English	3-4 years	£120	22
49.	Book-keeping, single and double, Correspondence, Shorthand	13 years	£100 per annum	27
50.	Auctioneers' Clerk	8 "	£1 per week	25
52.	Auditing and Bankruptcy	10 "	£2 10s. per week	30
53.	Clerk to Accountants	—	£70 per annum	20
54.	Accountancy, double entry, and Correspondence	28 years	£150 to £200	48
55.	Clerk, quick at figures	5 "	£100 prog.	21
56.	Accountants' Cashier, correspondence	25 "	£120 per annum	mild.
57.	Auditing, Bankruptcy, Liquidation	15 "	£160 "	35
58.	Book-keeping, single and double, balance sheets	5 "	£90 "	20
59.	Book-keeping, Shorthand, Correspondence	6 "	30s. per week	19



Photo: 'Richmond Herald'

CHARTERED ACCOUNTANTS' HOCKEY CLUB, FIRST XI

L. to r.: C. O. Merriman (*Hon. Secretary*); D. G. B. Knight (*Mid-Surrey*); I. Inglis (*Richings Park*); R. J. C. Mallinson (*Hampstead*); A. E. Day (*Harrow*); J. T. Hutchinson (*Tulse Hill*); J. S. Kinross (*Guildford*); M. R. T. Lowth (*Captain*) (*Southgate*); P. C. Kay (*Hampstead*); C. F. Dashwood (*Richmond*); C. P. Mahne (*Mid-Surrey*); S. J. Titcomb (*Burgess Hill*); W. P. Pine (*Umpire*).

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The Accountant

ESTABLISHED 1874

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CONTENTS

Leading Articles	Page
Profits Tax: An Important statement concerning Balance Sheets	541
The Housing Repair Problem	544
Weekly Notes	
The Institute and Publicity - The Limitation Act and Rates - Poor Show - Valuation of Shares for Estate Duty	546
Photograph	
Presentation to Mr J. C. Latham, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S.	547
Correspondence	
'Losing a Client' - Taxation of Doctors: Danckwerts Award - Section 459 (14), Companies Act, 1948 - Fact or Fiction - Builders' Cost Records	548
Finance and Commerce	549
The Institute of Chartered Accountants in England and Wales	
Meeting of the Council	552
Finding and Decision of the Disciplinary Committee	553
The Treatment of Profits Tax in Accounts	554
South Eastern Society of Chartered Accountants	
Fourteenth Annual Dinner: The Institute and Publicity	561
Notes and Notices	
Personal-Professional Notes - Deputy-Lieutenant of Northumberland - London and District Society of Chartered Accountants - Committee on the Economic and Financial Problems of the Provision for Old Age - The Chartered Accountant Students' Society of London - Manchester Chartered Accountants' Students' Society - The Chartered Accountants' Students' Society of Kingston upon Hull - Setting up an Organization in Brazil - The Institute's Autumnal Meeting: Photographs - For New Sur-tax Payers - Incorporated Accountants' District Society of North Staffordshire - Death Duties - Seventy-five Years Ago	562

PROFITS TAX

AN IMPORTANT STATEMENT CONCERNING BALANCE SHEETS

IN the last year or two a note about profits tax non-distribution relief has crept into a number of balance sheets. The inference to be drawn is that some accountants believe there should now be a change from the commonly accepted practice of making no reference to this disembodied tax. In prospectuses the tendency is much more pronounced; it has become almost standard practice to include a note about non-distribution relief in the accountants' report on assets and liabilities. If such a note is desirable in a prospectus, it may well be asked why it should not also feature in a balance sheet.

Under existing practice a balance sheet may appear without a note; when the same balance sheet becomes a statement of assets and liabilities in a prospectus report, a note may appear; and when the next balance sheet is issued there may again be no note. The distinction is something of a paradox. Liquidation is the event most likely to result in a heavy profits tax charge based on non-distribution relief; yet when a prospectus is issued all thought of liquidation is presumably about as remote as it will ever be.

Non-distribution relief has accumulated to an amount of great magnitude and in the absence of any change in profits tax legislation the amount will reach astronomical proportions in a few years' time. Because of this and the differences of treatment now emerging, an authoritative critique on the accounting treatment of profits tax is to be welcomed. It has been provided by the Council of The Institute of Chartered Accountants in England and Wales in the form of a pamphlet of *Notes on the treatment of profits tax in accounts*. This pamphlet has been distributed to all members of the Institute and we are pleased to reproduce it in full elsewhere in this issue.

The Council's notes include a few paragraphs on the manner of showing profits tax in the profit and loss account. Three methods are mentioned. One method is to show the gross amount with a deduction for non-distribution relief. Another is to distinguish that part of the charge which results from distributions. The third method is to show the profits tax charge in one amount. The Council makes no recommendation and expresses no preference. It is clearly open to each company to adopt any appropriate method. Nevertheless, the Council's remarks about the third method (one amount) seem to show a strong leaning towards it:

'This method (which in practice is normally adopted) shows the effective figure, without introducing technical complications which are only particular aspects of the computation involved in arriving at the charge.'

Whichever method is adopted, the Council considers that a distribution charge (using that expression in its technical sense) requires separate disclosure as it is not a charge in respect of the profits of the period.

An Impossible Calculation

The major part of the Council's notes is concerned not with the profit and loss account but with non-distribution relief in relation to the balance sheet. The notes are a most searching examination of a problem which defies satisfactory resolution. Much of the difficulty would not exist but for an anomaly in the profits tax legislation, namely, that amounts paid away in taxation are treated as retained profits for the purpose of ascertaining the amount of non-distribution relief available to support a future distribution charge. In consequence, the maximum distribution charge which a company may incur in the future is not governed by the amount actually retained out of the profits for 1947 and onwards; instead it is governed by the amount which may in future be distributed out of reserves in existence on January 1st, 1947, and subsequent capital profits.

This situation has already been brought to the notice of the Royal Commission on Taxation of Profits and Income. The Council's suggestion for corrective legislation is contained in paragraph 415 of its second supplementary memorandum to the Royal Commission.¹ Meanwhile the anomaly continues and plays an important part in leading the Council to the conclusion that at any given balance sheet date it is not normally possible to indicate in money terms what practical significance attaches to the outstanding non-distribution relief:

'In normal circumstances any attempt to estimate the amount of the profits tax liability which might be incurred on a hypothetical future distribution cannot produce any result of sufficient accuracy to be of value or significance.'

It is not even possible to attach to the outstanding amount a label which is both accurate in law and comprehensible to the shareholder. The Council has used the expression 'accumulated amount of non-distribution relief' but this has had to be specially defined in view of the

'halving' process introduced by the Finance Act, 1952. The expression used by the Council means the aggregate amount of the distribution charges which could be made in the event of the company making 'distributions' sufficient to exhaust the whole of the non-distribution relief previously given.

'True and Fair'

Five counsel (three acting jointly and two others acting jointly) have endorsed the Council's conclusion that the existence of an accumulated amount of non-distribution relief does not constitute either a liability or a contingent liability at the balance sheet date. The two counsel nevertheless consider that if the balance sheet is to give a 'true and fair view of the state of affairs of the company as at the end of its financial year', the balance sheet should indicate the accumulated amount of non-distribution relief (meaning the amount which is so described by the Council). The other three counsel do not take that view. They endorse the Council's conclusion that any possible liability which may be incurred in the future as a result of future distributions is not an element which in law requires consideration when determining whether a balance sheet gives a true and fair view of the state of affairs of the company as on the balance sheet date.

If the minority counsel are right, then nearly all balance sheets fail to comply with the Companies Act. Bearing in mind all the peculiarities of profits tax which are dealt with in the Council's penetrating notes, it is not surprising that the Council is unable to accept the minority view. The Council's conclusion, supported by the three counsel, is that in law it is not normally necessary to refer in a balance sheet to the existence of an accumulated amount of non-distribution relief.

A Satisfactory Compromise

But the matter is not left there. The Council favours a change of practice in balance sheets, notwithstanding what it believes to be the position in law:

'The Council considers that it may be helpful to shareholders to remind them that if any of the reserves were distributed, a part thereof would normally have to be paid away in profits tax instead of being paid to the shareholders. The Council therefore considers that there is much

¹ *The Accountant*, February 21st, 1953, page 221.

to commend the practice, now being adopted by some companies, of making the balance sheet as informative as possible by including an appropriate reference to the existence of an accumulated amount of non-distribution relief. It is a matter for consideration, in the circumstances of each case, whether the suggested reference should specify the accumulated amount of non-distribution relief or should be made in general terms only:

- (i) If the accumulated amount is stated, care must be taken to ensure that it will not be misleading, having regard to the relationship between that amount and the amount of reserves shown in the balance sheet.
- (ii) If the reference is made in general terms only, the following is an example of wording which may be suitable:

"The company has been given profits tax non-distribution relief and accordingly a profits tax charge would normally be incurred in the event of a distribution to shareholders out of reserves, including the balance on profit and loss account." (If Section 31, Finance Act, 1951, applies the wording would need variation to cover also a reduction or repayment of capital, or a capitalization of reserves.)¹

When a problem defies satisfactory resolution but has nevertheless to be disposed of, a compromise is inevitable. The procedure favoured by the Council is likely to meet with general, but not universal, approval.

At one extreme there must be accountants who believe firmly that no reference to non-distribution relief should appear in the balance sheet. They have in their support the view, confirmed by three counsel, that in law it is not necessary. They will argue that a balance sheet is drawn up as on a particular date and it is no part of its function to attempt to indicate the effects of future events which may or may not take place. They may, with every justification, point out that a company would be well advised not to go into liquidation, even after disposing of its entire undertaking, if the Sword of Dalton is poised above it.

At the other extreme there may be accountants who believe that a balance sheet cannot show a true and fair view unless the accumulated amount of non-distribution relief is stated. They have

in their support the view of the minority counsel.

Between these extremes there must be a great many accountants who believe that the accumulated amount has no significance by itself (and could indeed be misleading) but who nevertheless feel that something should be done. Some will argue that where there is doubt about the law it is wise to follow a middle course. Others will be content with the view that in law nothing need be shown on the balance sheet but they will nevertheless feel that something more than a strict application of the law is desirable. They will point out that reserves have changed their nature since 1946 with the result that 'shareholders' funds' is no longer an apt description of capital plus reserves. The procedure favoured by the Council should prove acceptable to all these accountants as being a satisfactory compromise. If so, a note about profits tax will become a familiar sight on balance sheets.

The Council recognizes that there may be exceptional circumstances, for example when liquidation is contemplated, which require special treatment in order to indicate as clearly as possible the significance of the non-distribution relief in the exceptional circumstances.

The coup de grâce

It is bad enough to be unable to express in money terms what practical significance attaches to the accumulated amount of non-distribution relief, while at the same time feeling obliged to warn shareholders that a distribution out of reserves would have painful consequences. But the *coup de grâce* was delivered by Section 31 of the Finance Act, 1951. When the painful consequences can also flow from a mere capitalization of reserves or, as the case may be, a reduction of shareholders' capital, surely the point has almost been reached at which the words 'true and fair view' will have to be qualified by the words 'so far as is possible having regard to the imponderable consequences of the provisions of the Profits Tax Acts'.

The situation well merits a travesty of the immortal words of the statesman whose government now has the power to apply the remedy – never in the field of financial statements was so much confusion imposed on so many by one tax. The Council's notes should be studied by the CHANCELLOR OF THE EXCHEQUER without delay.

¹ In an early issue we hope to reproduce a new Council recommendation, No. XVI, dealing with accountants' reports for prospectuses. Non-distribution relief is there dealt with on similar lines.

THE HOUSING REPAIR PROBLEM

IF statements of the obvious are made long enough and forcefully enough, sooner or later the Government in power will be found repeating them. Most people who understood the matter saw the folly of the excess profits levy as soon as it was announced, but a year had to pass before their strictures began to be acknowledged by the perpetrators of the tax.

So it has been with the problem of keeping rent-controlled houses in repair. The post-war years have seen a feverish but sustained effort to build large numbers of entirely new houses and flats, swallowing up vast tracts of agricultural land in the process and obliging large numbers of people to travel long distances every day to their work as the price of obtaining the new dwellings at much less than the economic rent. The fact that at the same time enormous numbers of older houses were rapidly falling into disrepair, and therefore to a large extent undoing the good work, seemed to be unobserved by authority, notwithstanding the warnings made by bodies such as the Royal Institution of Chartered Surveyors whose contribution¹ on the subject we discussed in our issue of May 26th, 1951.

A number of factors, mainly artificial ones imposed by legislation, contributed to the trend towards disrepair. The vast majority of houses are controlled at rents which are far below either their real value or the tenants' ability to pay. At the same time, the cost of repair is some three times what it was in 1939, as is shown both by the Institution's publication referred to above and by the report of the committee of inquiry into the cost of house maintenance,² which was published earlier this year. It must be added that many houses are now let at rents fixed not in 1939 but very many years earlier, when repair costs were even lower.

Until recently a rigid system of licensing, which was at any rate designed to ensure that building resources were directed into the most necessary channels, prevented many repairs from being carried out, even if the owner was prepared to incur the expense. Public-spirited owners who

were prepared to make a loss on their property were dissuaded, and are still dissuaded, from doing so by the absurd restriction on income-tax maintenance relief which prevents the expenditure from being set-off against the owner's other income. The same applies to a less extent to an owner-occupier, although in the nature of things he will not be so likely to allow his home to fall down as many tenants seem prepared to do.

The White Paper on *Houses the Next Step*³ which has now been issued, contains the Government's belated blessing on the scheme proposed by the Institution of Chartered Surveyors as a way out of the impasse. It provides for an increase in rent of an amount equal to twice the existing statutory deduction for repairs in the rating assessment. That deduction is a rough measure of the actual annual cost of keeping the house in repair at 1939 prices. By obtaining an increased rent of twice that amount the landlord is theoretically compensated for the increased cost of repairs. There is no question of compensating him for the fall in the value of money in relation to that part of the rent which he retains as the return on his investment.

The increase in rent is hedged about by safeguards. The landlord must first show that the house is in good general repair as regards both structure and decoration and that he has spent a minimum amount on it; either six times the statutory deduction in the three preceding years or three times the statutory deduction in the preceding twelve months. This, of course, penalizes those landlords who have been so conscientious throughout the post-war period as to have maintained their houses in a good state, so that their expenditure in the last three years has not had to be high. However, like most modern legislation, that proposed by the White Paper is designed not to reward the conscientious but to encourage the not so conscientious. The increase in rent, if allowed, will be restricted to ensure that the total rent does not exceed twice the gross value for rating. Here again, as is well known, there is no uniformity in rating standards and the limit is likely to operate unevenly.

Once the increase is obtained it will continue

¹ *Rent Restriction and the Repair Problem*, obtainable from the Institution at 12 Great George Street, London, SW1. (2s 3d post free.)

² *The Cost of House Maintenance*, H.M.S.O., 9d net.

³ Cmd. 8996, H.M.S.O., 3d net.

without proof of further expenditure by the landlord, but if he fails to keep the house in repair the tenant will be able to obtain a certificate of disrepair from the local authority. This will entitle him to withhold the increase of rent until the repair is carried out or the County Court allows an appeal by the landlord against the certificate.

The following example from a summary of the White Paper,¹ shows how the scheme is to work:

Gross value of house	..	£15
Statutory deduction	..	£6
Amount which must have been spent by the landlord on repairs	}	£36 in three years, or £18 in the last year.
Maximum possible repairs increase (twice statutory deduction)		£12 a year, or 4s 7d a week.
Maximum permitted rent (twice gross value)	}	£30 a year, or 11s 6d a week.

If the present rent is already 11s 6d a week or more, there can be no increase at all.

If the present rent is more than 6s 11d a week, the increase must be less than 4s 7d, because the maximum rent allowed under these proposals is 11s 6d.

If the present rent is 6s 11d a week or less, it may increase by the full 4s 7d, but by no more.

Granting, as the White Paper does, that the increase in rent will be absorbed by the increased cost of current repairs, it follows that the landlord really receives no compensation for past increased expenditure, including the qualifying expenditure referred to above. It remains to be seen, therefore, how many landlords will avail themselves of this offer.

For those who do not, there still remains the liability to keep their houses fit for human habitation, a liability which can be enforced by the local authority if it can be carried out at reasonable expense. The local authority can do the work and charge the landlord with the cost. Now that supplies are easier the Government propose to make it easier for local authorities to exercise these powers. Merely making the house fit for human habitation will not entitle the owner an increased rent. Accordingly, much will

depend on the new definition to be given to the expression 'fit for human habitation'.

The provisions for rent increases will not apply to houses let furnished or houses of which the rent has been fixed under special Acts in the light of post-war conditions. On the other hand,

increases will be allowed where a rent tribunal decides that the existing rent of a house, first let since 1939, is less than a reasonable amount or where a house has been let with services and the cost of the services has gone up since 1939.

The new scheme is not likely to have a very marked effect. Nevertheless, it is highly significant in that it shows that at last the Government has begun to make a breach in the sacrosanctity of standard rents. As we observed when reviewing the Institution's proposals in 1951, the idea that the cost of repairs should be in some part borne by the person directly benefiting from them may seem heterodox to some, but the logic of it is inescapable.

The White Paper recognizes that there are many houses which, although structurally sound, cannot be dealt with in the way outlined above. One major cause of the housing shortage is the change in ideas and social habits. As the Minister of Housing and Local Government observed, yesterday's luxury is today's necessity. Some houses lack bathrooms and modern sanitation to such an extent that mere repair is not sufficient to make them acceptable on modern standards. Some are too large or too inconvenient in their structure. In these cases improvements and conversions will go a long way to easing the demand for new accommodation. Indeed, some houses of the Georgian type make excellent flats equal to anything the modern builder has to offer. The provisions of the Housing Act, 1949, for grants towards improvements are to have more publicity, and some of the conditions attaching to them are to be eased.

Finally, the problem of the slums, actual and incipient, is to be tackled. A start is to be made with the more urgent clearances. At the same time local authorities are to have power to acquire slum property at site value even though they have no present intention of clearing it. They can do this in order to improve the lot of the tenants in the few years to elapse before final clearance is begun, and they are to receive Exchequer grants for this purpose.

Detailed criticism of these comprehensive proposals had perhaps better be left until the necessary Bill is published. It is at any rate heartening to see the official realization that those who have been unfortunate enough to invest in house property should not bear the whole burden.

¹ *Operation Rescue*, H.M.S.O., 3d net.

WEEKLY NOTES

The Institute and Publicity

Speaking at the annual dinner of the South Eastern Society of Chartered Accountants in Brighton on November 6th, the President of the Institute, Mr James Blakey, F.C.A., made some strong comments that will be welcomed by members of the Institute throughout the country.

It is right, he said, that in the long run the pre-eminence of the Institute can be maintained only by 'the quality of our individual work'. Evidence of the Institute's pre-eminence today is provided by the fact that the overwhelming proportion of accounts of public and private companies is audited by members of the Institute, and by the extent to which their names appear on prospectuses.

But this, he continued, is certainly not a complete answer to the small practitioner who has 'difficulty in keeping up his end against his competitors, qualified and unqualified'. At times, he said, the smaller practitioner might think that the Institute does not help him sufficiently, but the President assured his listeners that the Council is 'continually concerned' about the smaller practitioner, who, Mr Blakey pointed out, suffers from two great disadvantages— isolation, and the competition of the unqualified practitioner who is at liberty to advertise. The President spoke at some length on these subjects: when advice is needed, he was sure that there would be friends who would be prepared to help; if not, each district society has an advisory subcommittee which may be approached for informal advice in cases of difficult questions of practice.

Considerable difficulty is presented by the competition of unqualified practitioners, the President said, but the Council is ever mindful of the 'question of publicity or educating the public to consult a qualified practitioner for its own sake'. The difficulty is not so much whether there should be suitable publicity, he said, but the method. Mr Blakey then outlined the efforts that had been made to achieve co-ordination of the profession which, he said, would not be the answer to the problems.

Offering his personal opinion, the President thought the solution to be

'... firstly we must maintain and enhance the high quality of our work and standards until they permeate into the business community for its own sake and advantage and then these potential clients who have been to unqualified practitioners will of necessity be forced into our hands.

'Secondly, some method of bringing before the public on any and every suitable occasion the high standards of work and conduct of the Institute as a whole.'

Concluding his remarks on these important subjects, the President invited his listeners to submit suggestions 'provided that they are submitted with a reasoned view of the background which I have tried to sketch'.

Mr Blakey's speech is reported elsewhere in this

issue. We applaud this further evidence of the Council's appreciation of these very real problems of today.

The Limitation Act and Rates

Proceedings for the recovery of rates are of a special kind. No action in the ordinary sense lies for their recovery; instead, an old statute of Elizabeth I lays down that the rating authority must apply to the justices for a distress warrant. The question arose recently whether in those circumstances the Limitation Act applied to liability for rates: *China v. Harrow Urban District Council* (*The Times*, November 7th, 1953). In that case the appellant was £31 odd in arrear for rates on a house occupied by him until July 1940 when he departed on war service. By 1953 the Council had discovered his whereabouts and applied for the necessary distress warrant.

The appellant took the point before the justices that they were precluded from granting the distress warrant by Section 2 (1) of the Limitation Act, 1939, which provides:

'The following actions shall not be brought after the expiration of six years from the date on which the cause of action accrued. . . .

(d) Actions to recover any sum recoverable by virtue of any enactment.'

The justices held that although they were carrying out judicial duties in hearing the application for the warrant, the proceedings did not constitute an 'action' and were not therefore within Section 2 (1) (d). On appeal, the Divisional Court upheld the ratepayer's objection. The Lord Chief Justice pointed out that 'action' was defined in Section 31 as including 'any proceeding in a court of law, including an ecclesiastical court' unless the context otherwise required. The cause of the proceeding in the present case was the failure to pay on demand in 1940, which was more than six years before the proceedings were brought. Accordingly, the Limitation Act applied.

Poor Show

The will, dated June 6th, 1952, of Mr Eric Vincent Poore, of Southdown House, Patcham, Sussex, and formerly of the Junior Carlton Club, has recently been published. Mr Poore, who died on April 3rd, left £30,104 gross, £2,872 net; duty paid being £28. In his will he said:

'From the grave I curse the Board of Inland Revenue who have ruined my life. All Inspectors Taxes are sadistic and depraved individuals with no sense of equity, justice or even common decency. That is common knowledge.'

He also directed that a copy of the relevant part of the will be sent

'to every Inspector of Taxes I have had any dealings with, each member of the Board of Inland Revenue at his private house, and to whoever is the dishonest Chancellor of the Exchequer of the day.'

Valuation of Shares for Estate Duty

In our last issue we briefly mentioned the resumed hearing by Mr Justice Danckwerts in the Chancery Division of a Revenue action in which Mr Cecil Raymond Holt, Mr John Alphonse Holt and Mr John Chadwick Mather appealed against the decision of the Commissioners of Inland Revenue as to the value, for estate duty purposes, of 43,698 £1 ordinary shares in John Holt & Co (Liverpool) Ltd. The shares were the subject of a settlement, dated January 7th, 1947, by Mr R. L. Holt, who died on March 11th, 1948, and the appellants are the trustees of the settlement.

The Solicitor-General submitted that there would have been plenty of buyers for the shares concerned, at the price of 25s. It could not be assumed that the dividend would not go higher, in view of the reduced value of money, and he suggested that to some buyers the increase of the dividend would have been a real possibility, while others would have attached con-

siderable value to the prospect of capital appreciation. Values of 28s to over 30s had been suggested by some witnesses.

The Revenue had acted reasonably and rightly in fixing 25s as being the lowest possible figure that could be taken.

Replying, Mr B. J. M. McKenna, Q.C., for the appellants, supported the figure of 17s 2d put forward by the petitioners. The basis of fixing the price was that the shares were offered in the open market to the whole world, and the Court had to assume a prudent buyer, who would make full inquiries into the relevant facts in order to ascertain the real value of the shares. In the present case it would be wrong to assume a buyer who would not make such full inquiries. A prudent buyer would also have regard to the yield of other shares which offered alternative investments.

His lordship reserved judgment.



Presentation to Mr J. C. Latham, D.L., F.A.G.C.A., F.S.A.A., F.C.I.S.

Last April Mr Latham retired from the secretaryship of the Association of Certified and Corporate Accountants after thirty-one years' service, and the Association's recent annual dinner and dance at Grosvenor House, Park Lane (reported in our last issue), was made the occasion of a presentation from members to him. He is here seen being congratulated by his brother, Lord Latham, President of the Association (*left*), while on the extreme right can be seen the handsome television set which formed part of the presentation. Mr Latham continues with the Association as Director and Consultant.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'Losing a Client'

SIR, — In your editorial 'Losing a client' in *The Accountant* of October 24th, the following sentences occur:

'If the auditor facilitates the change by voluntary resignation, it would not be unreasonable, in some circumstances, to expect some voluntary financial compensation. Such an expectation is unlikely to be fulfilled if the shareholders, with or without valid reasons, have lost confidence in the auditor. But it would be a reasonable expectation where an audit has been held for many years and the only reason for the change is the desire of a new controlling shareholder to use the services of the auditor of other companies under his control.'

These views raise various possibilities and it would be interesting to have the views of yourself and/or your readers as to the basis on which any compensation would be calculated and whether the client or the incoming auditor should bear the cost.

Yours faithfully,
NORTHERN C.A.

[We can think of no reason why the incoming auditor should compensate the outgoing auditor. Any question of compensation would be between the client and the outgoing auditor. Inasmuch as the auditor could in any event be removed at the next annual general meeting the basis of compensation would not normally extend beyond one year's fee and the amount would presumably be related to the profit element in the fee. — Editor.]

Taxation of Doctors: Danckwerts Award

SIR, — The assessment position queried by 'C.A.' in your October 24th issue is certainly a distressing one (and particularly so when one considers the difference in tax liability on the same income, between the 'new' practitioner and the 'old' one), but we understand from the Inland Revenue authorities that no form of concession is to be entertained in these cases.

Unfortunately the doctor who has commenced to practise since the inception of the health service on July 5th, 1948, cannot even attempt to have his first year's profit undisturbed by declining to accept that portion of the Danckwerts award which is applicable to that year. The award is essentially a lump-sum payment, spread back over the relevant accounting years by concession. Any reduction of the award therefore would none the less still affect that first year. We ourselves have a doctor client who commenced to practise on July 5th, 1948. His practice income plus a large private income, render him liable to very substantial sur-tax liabilities, and, ludicrous though this may seem, the 'over-assessments' arising out of the Danckwerts award (because of the 'new business' provisions) resulted in his almost being out of pocket upon receipt of an award totalling £1,850.

In fact, had the award been much larger he could not have afforded to have accepted it.

Incidentally, we do not quite follow the assessment calculations as set out by 'C.A.', which appear to us to be as follows:

Year to December 31st, 1950 increased by £1,000, therefore the 1949-50 assessment increased by £250, and the £1950-51 and 1951-52 assessments increased by £1,000 each (over-assessment to date, £1,250).

Year to December 31st, 1951 increased by £1,000, therefore 1952-53 assessment increased by £1,000, and year to December 31st, 1952 increased by £500, thus increasing the 1953-54 assessment by this amount.

Total award, £2,500; total assessments, £3,750; apparent over-assessment, £1,250 (arising on year to December 31st, 1950, as above).

Yours faithfully,
W. A. H. S.

Section 459 (14), Companies Act, 1948

SIR, — With regard to the point raised by 'Perplexed' in your issue of November 7th, it would appear that Section 184 of the Companies Act, 1948, does in fact override Section 80 of Table A of the 1929 Act.

It seems that Section 459 (14) (e) of the 1948 Act is more general in its application, whereas Section 184 specifically excludes contrary provisions in a company's articles. Also the words in Section 459 (14) (e),

'So far as the same applies to any company existing at the commencement of this Act',

bring the company in question within the scope of Section 184 which states that Section 80 of the 1929 Table A (contrary provisions) shall not apply.

Yours faithfully,
K. A. WEBB, A.C.A.

Sutton Coldfield, Warwicks.

SIR, — In your publication of November 7th, 'Perplexed' inquires whether Section 459 (14) (e), Companies Act, 1948, prevails against Section 184 of that Act to keep in operation Article 80, Table A, Companies Act, 1929, adopted in its articles of association by a company incorporated under the Companies Act, 1929.

The answer appears to be in the affirmative. Section 184 re-enacts Section 29, Companies Act, 1947, and it is also a provision of the Companies Act, 1948, overriding a company's articles. It is therefore within Section 455 (4), Companies Act, 1948; but equally Section 459 (14) (e) is an example of the exception provided by the Act, for in unequivocal terms it states,

'Nothing in this Act shall affect Table A . . . so far as the same applies to any company existing at the commencement of this Act.'

Yours faithfully,
SHIRLEY.

Fact or Fiction

SIR, - I think that the following little story may be of some interest to your readers.

The library in a sanatorium was, until recently, in the hands of a patient - a displaced person. Many text-books are included to help in the rehabilitation of patients. When the D.P. was discharged, it was found that he had re-indexed many volumes and on the shelf, boldly marked 'General Fiction' reposed a thick volume entitled *Book-keeping!*

We ask each other, was he a psychologist or a humorist?

Robertsbridge, Sussex.

Yours faithfully,
J. G. ALLEN.

Builders' Cost Records

SIR, - With reference to the inquiry from your correspondent Mr J. G. Meek (October 17th issue), a very simple and effective method of obtaining rapid advice of deliveries to local building sites for posting to central cost records can be achieved as follows:

- (1) Each site is provided with a loose-leaf 'Goods received register' containing sheets with columns for the following details: date; order and delivery note numbers; name of supplier; description and

quantity of goods or materials; unit price and value; and, perhaps, name of carrier; initials of checker; disposal.

- (2) The records would be written up in duplicate in the register.
- (3) Each day as goods are delivered, they would be checked or counted and entered in the 'Goods received register', of which a duplicate will be made by placing a sheet of carbon between two of the forms.
- (4) At the end of each day (or any other frequent interval) one of the copies will be removed from the register and posted to the central office where the information will be posted to the appropriate cost account.
- (5) The duplicate copy thus sent may be accompanied by the delivery notes of the goods concerned which will be needed later when the invoices are received to be checked for payment. Needless to say, it will be essential for the local clerk receiving delivery on the site to independently check or count the goods arriving and not to accept the quantity of goods as shown on the delivery note.

Yours faithfully,

Birmingham, 14. R. BRAITHWAITE, A.C.A.

FINANCE AND COMMERCE

Tying-up of a substantial amount of investment money in the United Steel share issue has restricted stock market activity to some extent but the general undertone remains confident. Once the steel share issue is finally out of the way, an early resumption of trustee borrowing in the gilt-edged market is expected.

Singapore Accounts

We have received from Mr P. J. Cavanna, A.C.A., the accounts of Fraser & Neave Ltd and of its associated company, Malayan Breweries Ltd. Both companies are incorporated in Singapore and Mr Cavanna is the group's accountant. We reprint the Fraser & Neave accounts this week.

Mr Cavanna, in his covering letter, mentions by way of background that the company operates twelve factories in the Federation, the Colony of Singapore, Thailand and the Republic of Indonesia, producing a wide range of soft drinks and, under franchise, bottling 'Coco-Cola'. The company also acts as managing agents and distributors for Malayan Breweries whose 'Anchor' beers won the Empire Championship at the Brewers' Exhibition in London in 1950. These are facts, however, which with any company should go with the report to make it a self-contained statement regarding the company, its business and its position.

We were interested in the statement by the chairman, Mr T. Aiken, regarding evasion of taxation in the Federation, the subject of a recent report by the senior investigation officer. Mr Aiken says that the report fully confirms the opinion of the commercial community that income-tax has been too hastily

imposed with little regard to the difficulties of administration and that widespread evasion would be inevitable.

Shorn of Detail

The accounts presented by Clifford Motor Components Ltd for the year to March 31st, 1953, go the full length in removing detail to separate schedules. The consolidated balance sheet shows that fixed assets plus trade investments and current assets produce total tangible assets of £2,615,773; that after deducting current liabilities and the proposed dividend, net tangible assets amount to £2,137,670; and that with net tangible assets, the interest of the members of the company in the book value of the Group's net assets is £2,193,869.

This is shown to be made up of the capital (in detail), capital reserves and revenue reserves. In similar manner, separate schedules give the detail of the profit and loss account, the make-up of the Group charge for taxation, for instance, being shown in this way. We notice that this year, employees welfare expenditure of £16,812 is a deduction from trading profit whereas last year it was dealt with by way of an appropriation to the employees welfare fund of £18,000.

Those who have become accustomed to the usual form of balance sheet with its current assets group showing stock, debtors, cash, etc., may find it a little difficult to turn overleaf in this case for the group details but the confinement of the balance sheet itself to the group totals has its advantages. Some companies achieve the same object by a separate

balance sheet summary in addition to the normal accounts.

'600 Group'

One of the best examples of good company reporting we have seen for some months has come from George Cohen Sons & Co Ltd, engineers and iron, metal and machinery merchants, sometimes known as 'The 600 Group of Companies'. Why '600', we should like to know. The report takes understanding for granted but in other respects is full of information and interest. The publication is excellent publicity from the trade as well as the shareholders' angle.

More than half the booklet is given to the company's 'Service to Industry', illustrated with 26 pages of pictures and informed by a trade directory which describes the make-up of the Group, the machinery, tools, and materials in which business is done, and gives the addresses and 'phone numbers to which application should be made.

An indication of the scope of the accounts is seen in the simplified group profit and loss account which opens with group turnover and through deductions for payments to outside suppliers for goods and

services, net wages and salaries (approximately 6,700 persons), P.A.Y.E. and depreciation, moves down to net profit, the disposal of which in taxation of profits, net amount paid to stockholders (approximately 3,100 persons), other appropriations, and amount set aside for replacement and development follows. Alongside is a summary showing how the profit was derived from the three main headings under which the group business is conducted.

The introduction to the trade section of the report states that 'Copies of this brochure will be sent on application to the Publicity Department, The "600" Group of Companies, Cunard Works, Chase Road, North Acton, London, NW10'.

Money Market

An increase from £385,875,000 to £392,540,000 in Treasury bill applications on November 6th and a reduction from £240 to £220 million in the offer resulted in a cut from 45 to 34 per cent in the market's quota at a maintained bid of £99 9s 6d. The average rate was 0.75d lower at £2 1s 10.62d per cent. This week's offer is £230 million.

FRASER AND NEAVE LIMITED Profit and Loss Account for the Year ended June 30th, 1953

	June 30th, 1953	June 30th, 1952
Trading Profit after providing for depreciation of stocks and doubtful debts and after charging:	\$2,241,580	\$2,776,583
Depreciation including transfer to Plant Replacement Reserve	\$1,058,339	1,000,375
Directors' Fees	27,000	27,000
Income from Trade and General Investments (net)	689,076	755,832
Subsidiary Companies: Profit remitted less provision for loss	44,543	17,803
Secretarial and Transfer Fees and Sundry Income	35,516	26,074
	80,059	43,877
Profit before Taxation	3,010,715	3,576,292
Reserve for Income-tax	1,150,000	1,300,000
Profit after Taxation	1,860,715	2,276,292
Balance of Profit Unappropriated		
Brought forward from previous year	849,603	799,925
Provision for Income-tax in previous years no longer required	200,000	—
Net surplus on liquidation of Subsidiary Companies after transfer of \$300,000 to reserve	211,673	—
War Damage Claims paid	—	357,080
Available for Appropriation	3,121,991	3,433,297
and dealt with as follows:		
Dividends Paid and Proposed:		
Preference Dividends for the year less tax	25,294	25,294
Ordinary Dividends:		
Interim Dividend of 6 per cent less tax	340,200	453,600
Proposed Final Dividend of 6 per cent and Bonus of 7 per cent both less tax	737,100	604,800
	1,102,594	1,083,694
Recommended Transfer to General Reserve	1,000,000	1,500,000
	2,102,594	2,583,694
Balance of Profit Unappropriated carried forward to next year	\$1,019,397	\$849,603

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council, held on Tuesday, November 4th, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-president; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Bernhard Binder, Messrs C. W. Boyce, C.B.E., W. G. Campbell, P. F. Carpenter, W. S. Carrington, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, P. F. Granger, Sir Harold Howitt, G.B.E., D.S.O., M.C., Sir Russell Kettle, Messrs W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., R. McNeil, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., L. W. Robson, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, B. Smallpeice, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and Assistant Secretaries.

Welcome to New Member of the Council

The President welcomed Mr R. McNeil, F.C.A., of Brighton, who was attending for the first time as a member of the Council and Mr McNeil briefly replied.

Re-admission to Membership

Three applications for re-admission to membership were acceded to.

Exemption from the Preliminary Examination

One application under bye-law 79 and one application under bye-law 63 (a) for exemption from the Preliminary examination were acceded to.

Reduction in Period of Service under Articles

Two applications under bye-law 61 for a reduction in the period of service under articles were acceded to and one application was not acceded to.

Exemption from the Intermediate Examination

Twenty-eight applications under bye-law 85 (a) for exemption from the Intermediate examination by articulated clerks who had produced evidence of having graduated by taking one of the degree courses approved by the Council under bye-law 62 were acceded to.

Two applications under bye-law 85 (b) for exemption from the Intermediate examination were acceded to and one application was not acceded to.

Intermediate Examination

One application under bye-law 81 for permission to sit an earlier Intermediate examination was not acceded to.

Final Examination

One application under bye-law 86 for permission to sit an earlier Final examination was acceded to.

Estate Duty Anomalies

The Council approved a memorandum for submission to the Board of Inland Revenue in connection with the Chancellor of the Exchequer's review of anomalies arising under estate duty law. Copies will be distributed to all members of the Institute towards the end of November.

Treatment of Profits Tax in Accounts

On the report of the Parliamentary and Law Committee, following consideration of a memorandum prepared by the Taxation and Research Committee the Council has authorized the printing and is all members of the Institute of a pamphlet of *N the treatment of profits tax in accounts*. [Reproduced in this issue. — EDITOR.]

Accounting Principles

On the report of the Parliamentary and Law Committee, following consideration of a memorandum prepared by the Taxation and Research Committee the Council has authorized the printing and is all members of the Institute of a recommendation under the title *Accountants' reports for prospective adjustments and other matters*, as No. XVI in the of recommendations on accounting principles. [Reproduced in our next issue. — EDITOR.]

Autumnal Meeting, 1953

The President was asked by the Council to send of appreciation to all those who gave their service in connection with the autumnal meeting held at borough in October.

Appointments to Committees

Mr R. McNeil was appointed to serve on the Accounts, District Societies and Examination Committee for the ensuing year.

Intermediate Examination Syllabus

The Council has decided to modify the syllabus two subjects in the Intermediate examination changes are as follows and they will take effect commencing with the May 1954 examination:

- (i) *Auditing*. The words 'including investigation' have been deleted from the syllabus.
- (ii) *Taxation and Cost Accounting*. The syllabus has been revised to read:

"The law and principles of income-tax and its application, and the preparation of computations for submission to the Inland Revenue. Questions will *not* be set involving profits tax, profits levy, penalties, assessment of foreign income, double taxation relief, residence and domicile."

"The objects and principles of cost accounting. Questions will *not* be set involving the preparation of cost accounts."

Intermediate Examination: Eligibility to

The Council proposes to submit a resolution at the next meeting to follow the annual general meeting in order to vary the bye-laws so as to provide that, commencing with the May 1955 examination, an articled clerk serving for a period in excess of three years may present himself for the Intermediate examination on the expiration of two years of his term of service; that, in any other case, he may so present himself on the expiration of one year of his term of service.

Certificates of Practice etc.

It was resolved:

(1) That certificates of practice be issued to the following thirty-two associates who have commenced to practise:

Ascough, George Arthur; 1950, A.C.A.; (Barron & Green), Commerce Chambers, 127 The Headrow, Leeds, 1.
 Barker, John Sowerby Gartside; 1949, A.C.A.; (F. Hunter, Gregory & Lord), Irwell Terrace, Bacup.
 Bird, John Leslie; 1951, A.C.A.; 118/119 Newgate Street, London, EC1.
 Calvert, Margaret Ada Tomsett, B.A.; 1952, A.C.A.; 21 Eastfield Drive, Liverpool, 17.
 Corkish, William Douglas; 1953, A.C.A.; (E. M. Owen & Co), 11-13 Victoria Street, Liverpool, 2.
 Crawford, Stanley Derek; 1953, A.C.A.; 14 Linden Road, Didsbury, Manchester, 20.
 Ellison, William Eric, B.COM.; 1953, A.C.A.; (A. E. Ellison & Co), Commerce House, Bradford.
 Farmer, Maurice, B.COM.; 1953, A.C.A.; 58 Hitchen Hatch Lane, Sevenoaks, Kent.
 Fenton, Alexander Gilbert; 1931, A.C.A.; 7 David's Road, Forest Hill, London, SE23.
 Fischer, John Eric; 1952, A.C.A.; (Simon Jude & West), Lloyds Bank Buildings, 11-13 Victoria Street, Liverpool, 2.
 Gallaway, Richard James Rodier; 1937, A.C.A.; (Smith, Weir & Turner), 16 Oxford Street, Manchester, 1, also at Rochdale (E. Turner & Co).
 Gibson, Robert Heward; 1953, A.C.A.; (James Gibson & Sons), Union Bank Chambers, Royal Street, Barnsley.
 Glissan, Reginald John; 1952, A.C.A.; (Tyler & Wheatcroft), Central House, 75 New Street, Birmingham, 2.
 Hamilton, John Robertson; 1953, A.C.A.; 30 Fleet Street, London, EC4.
 Hood-Williams, William Stanley; 1929, A.C.A.; (Sidney H. Buckland & Son), Moorgate House, 6 Christina Street, Swansea.
 Horton, John Arthur; 1951, A.C.A.; (Tyler & Wheatcroft), Central House, 75 New Street, Birmingham, 2.
 Jennings, Roland Godfrey, M.A.; 1952, A.C.A.; (Roland Jennings & Co), 49-50 John Street, Sunderland, and at London.
 Jones, Wilfred Henry, B.COM.; 1951, A.C.A.; (Sidney H. Buckland & Son), Moorgate House, 6 Christina Street, Swansea.
 Keyworth, Raymond Dennis; 1952, A.C.A.; (*Francis S. Clark & Co), 67A Queen Street, Newton Abbot, and at Teignmouth.
 Kirk, Ronald; 1953, A.C.A.; (Hodgson, Harris & Co), Bank Chambers, Parliament Street, Hull; (for other towns see Hodgson, Harris & Co).
 Knox, Leslie; 1951, A.C.A.; 8 Derwent Road, Marden, Cullercoats, Northumberland.
 Lynn, Peter, B.COM.; 1951, A.C.A.; (Peter Lynn & Co), 40 Mortimer Street, London, W1.
 Minter, Henry Clifford; 1937, A.C.A.; (*Martin & Acock), Westminster Bank Chambers, 69 London Street, Norwich, and at Swaffham and Watton.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Pickup, Clifford Roy; 1921, A.C.A.; (F. Hunter, Gregory & Lord), Irwell Terrace, Bacup.

Pollex, Bernard Evan; 1927, A.C.A.; (Latimer & Kelsall), 125 Cotton Exchange Buildings, Old Hall Street, Liverpool, 3.
 Pollock, Robert William; 1953, A.C.A.; (Mayhew-Sanders & Co), 31 St James's Place, London, SW1.

Selby, James May; 1940, A.C.A.; (Holden, Howard & Co), 3 Abchurch Yard, London, EC4.

Squance, Michael John Lawry; 1953, A.C.A.; (T. C. Squance & Sons), 26 John Street, Sunderland.

Tompkins, Frederick Henry George; 1932, A.C.A.; (Baker, Tompkins & Co), Paxton House, 36-38 Dean Street, London, W1.

Trevors, Frederick John, D.F.C.; 1951, A.C.A.; (Holden, Howard & Co), 3 Abchurch Yard, London, EC4.

Wakeling, Vivian William; 1953, A.C.A.; 49 Cefn Road, Cardiff.

Watchorn, Richard Geoffrey; 1944, A.C.A.; (Tyler & Wheatcroft), Central House, 75 New Street, Birmingham, 2.

(2) That seventeen associates be elected to fellowship under clause 6 of the supplemental Charter (bye-law 31).

(3) That four associates be elected to fellowship under clauses 6 and 31 of the supplemental Charter (bye-law 37).

(4) That two applicants be admitted as associates under clause 9 of the supplemental Charter (bye-law 36).

A list of those who complete their fellowship or membership before November 17th will appear in *The Accountant* of November 21st.

Registration of Articles

The Secretary reported that 199 articles of clerkship were registered during the month of October 1953, as compared with 231 in the previous October.

Changes of Names

The Secretary reported that the following changes of names had been made in the Institute records:

Joseph Abraham Cibulia to Joseph Chilton.

Wallace Zuzman to Wallace Simson.

Frank Sidney Yass to Frank Sidney Young.

Resignations

The Secretary reported the resignations of:

Mr Kenneth Hugh Sachse, M.B.E., B.A., A.C.A., Tewkesbury.

„ Frank Taylor, F.C.A., Birmingham.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Mr William Latham, F.C.A., Lytham St Annes.

„ William Edward Mounsey, J.P., F.C.A., Liverpool.

„ Arthur John Cotterill, A.C.A., Nottingham.

„ Thomas Davies Evans, B.A., A.C.A., Bargoed.

„ Howard Russell Selmon, A.C.A., Cardiff.

„ Harold Beal Stevenson, F.C.A., Brixham.

„ Elijah Sudworth, F.C.A., Huddersfield.

FINDING AND DECISION OF THE DISCIPLINARY COMMITTEE

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on October 6th, 1953.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Ian Douglas Elder, A.C.A., was, at a Magistrate's Court in July 1953, convicted of obtaining credit to the amount of £204 by means of fraud other than false

pretences, so as to render himself liable to exclusion or suspension from membership of the Institute. The committee found that the formal complaint against Ian Douglas Elder, A.C.A., had been proved and the committee ordered that he be excluded from membership of the Institute.

THE TREATMENT OF PROFITS TAX IN ACCOUNTS

Since the introduction of profits tax as from January 1st, 1947, there has been a great increase in the rate of the tax and in the rate of non-distribution relief, with the result that in the case of many companies the accumulated non-distribution relief is now material in amount. If the present system and scale of taxation continue the accumulated amount will increase year by year. In view of this and other peculiarities of the tax the Council of The Institute of Chartered Accountants in England and Wales has considered it advisable to issue these notes which it is hoped will be helpful to members of the Institute.

NATURE OF PROFITS TAX

(1) The structure of the profits tax is unlike that of any income taxation hitherto experienced in the United Kingdom. The whole of the profits as computed for profits tax purposes is charged at the full rate, but the charge is then reduced by non-distribution relief on the amount not 'distributed' within the meaning of the profits tax legislation. No liability exists in respect of the non-distribution relief unless for any future chargeable accounting period the 'distributions' (including those on liquidation) exceed the profits chargeable to profits tax for that period; when that occurs the resulting distribution charge is a charge for that period, not a charge which involves reopening the assessment(s) of the year or years for which the non-distribution relief was given.

(2) As a distribution charge does not become a charge before the period for which the distribution is deemed to be made (see Section 30 (3), Finance Act, 1947) it follows that at any particular balance sheet date:

- (a) The accumulated amount of non-distribution relief does not constitute a liability; and
- (b) Any amount set aside to meet possible future distribution charges would not be a provision within paragraph 27 (1) (a) of the Eighth Schedule to the Companies Act, 1948, but would be a reserve; and it would not be a 'charge for United Kingdom taxation on profits' required to be shown as such in the profit and loss account under paragraph 12 (1) (c) of the Eighth Schedule.

PROFIT AND LOSS ACCOUNT

Disclosure of Gross Amount with Deduction for Non-distribution Relief

(3) One method of dealing in the profit and loss account with the charge for profits tax would be to show the gross profits tax with a deduction for the non-distribution relief, leaving the net amount of the profits tax charge. It may however be considered that there is little purpose in giving this information unless it is intended to transfer to a special reserve the amount of the non-distribution relief (or part

thereof, if the available balance of profit is less than the non-distribution relief).

Disclosure of Amount Attributable to Distributions

(4) Another method would be to distinguish the additional amount resulting from distributions, that is to say, the difference between the actual profits tax for the year and the profits tax which would have been borne if there had been no distributions. This might be done by describing the charge for the year as 'profits tax (of which £x results from distributions)', or by grouping with the equity and preferential dividends the additional profits tax resulting therefrom. The latter procedure might, in appropriate cases, have the advantage of indicating the cost of the dividends, but in other cases it may well be that no special significance would attach to the figures, particularly in cases where there is a material amount of franked investment income. In a group of companies which is not wholly treated as a group for profits tax purposes, this method of dealing with the profits tax charge could well be misleading: for example, where the income of a holding company includes franked investment income from subsidiaries, the distributions made by the holding company may have little or no effect on the amount of profits tax chargeable on that company; the subsidiaries will have borne the higher rate of tax as a result of the distributions made by them to outside interests and to the holding company to enable the latter to make its own distributions.

Disclosure of Net Amount only

(5) A third method would be to show the profits tax charge in one amount. This method (which in practice is normally adopted) shows the effective figure, without introducing technical complications which are only particular aspects of the computation involved in arriving at the charge.

Separate Disclosure in Special Circumstances

(6) Whichever method is adopted, it is necessary to consider whether there are 'circumstances of an

exceptional or non-recurrent nature' (see paragraph 4 (6) (a) of the Eighth Schedule to the Companies Act, 1948) which require separate disclosure. In particular:

- (a) Where the distributions¹ for a period exceed the profits chargeable to profits tax for that period, a distribution charge will be incurred if there is an accumulated amount of non-distribution relief. To the extent of the distribution charge the total profits tax charge is not a charge in respect of the profits of the period, so that if the distribution charge is material it would appear to require separate disclosure as being a circumstance of an exceptional or non-recurrent nature which has affected the profit and loss account.
- (b) A company cannot distribute in gross dividend an amount equivalent to the whole of the profits of a period unless it draws from reserves an amount equal to the taxation, other than income-tax, which has to be borne on those profits. Taxation thus creates a 'break-even' point (namely, the point at which distributions plus taxation exactly equal the profits) so that a distribution above the break-even point cannot be made out of the profits of a period without drawing upon reserves (including the balance brought forward on profit and loss account); but, provided that the distribution does not exceed the amount of the profits of the period, the fact that it passes the break-even point does not involve a distribution charge. Where a distribution has been made above the break-even point, the fact that it has been necessary to draw upon reserves in order to make the distribution will be evident from the accounts, but the question arises whether it is necessary to distinguish that part of the profits tax charge which has made it necessary to draw upon reserves. This is not considered to be necessary, even if it were practicable. The amount of profits tax charge for a year consists of the full rate less the non-distribution relief, if any; and there appears to be no special significance or purpose in disclosing part of the calculation of the charge. The position is easily distinguished from that which exists where there is a distribution charge; in that case the company has had to bear not only the full rate on the whole of the profits for the period, but also an additional charge by way of withdrawal of previous non-distribution relief and it is this additional charge which, as stated in (a) above, appears to call for separate disclosure.

For this purpose, 'distributions' mean distributions as defined for profits tax purposes and will therefore include not only distributions of revenue or capital profits but in some circumstances reduction of capital or even capitalization of profits (see paragraph 13).

BALANCE SHEET: NON-DISTRIBUTION RELIEF

Nature of Non-distribution Relief

(7) A distribution charge does not become a charge before the period for which a distribution is made in excess of the profits of that period (see paragraphs 1 and 2). It therefore follows that unless an excess distribution is made the accumulated amount of non-distribution relief² does not constitute a liability. Nor does the accumulated amount constitute a contingent liability, as it is not a liability and it cannot, except in most unusual circumstances, become a liability except by some decision of the company. Nevertheless the company (or in certain cases of amalgamations its successor) can never divest itself of the possibility of ultimately becoming liable to the Inland Revenue for the accumulated amount.

(8) In the majority of cases the accumulated amount of non-distribution relief is unlikely to give rise to a substantial distribution charge except in the event of winding up, because a company does not normally distribute in respect of any chargeable accounting period a sum in excess of the profits of that period. A balance sheet is however prepared as on a particular date on a going-concern basis and it does not purport to show the effect of the many factors which may arise on winding up. On the other hand, a distribution charge can be incurred during the life of a company even though dividends for each accounting period do not exceed the profits of that period. This position exists because for profits tax purposes almost any payment to proprietors, in respect of revenue or capital profits or in some circumstances reduction of capital, or even in some circumstances a capitalization of profits, will rank as a distribution and will therefore attract profits tax up to the accumulated amount of non-distribution relief. There is thus no certainty as to the consequences which may at some future date flow from the non-distribution relief previously given. It is therefore necessary to consider what practical sig-

¹ In these notes the expression 'the accumulated amount of non-distribution relief' is used in a special sense. Prior to the Finance Act, 1952, profits tax was deductible as a charge in computing profits for income-tax purposes, but it ceased to be so deductible under the provisions of that Act. At the same time a change was made in the method of computing a distribution charge based on non-distribution relief given up to December 31st, 1951, the effect of the change being to produce approximately the same charge as would have been borne if profits tax had continued to be deductible for income-tax purposes. This change is provided for under paragraph 1 of the Seventh Schedule to the Act, the effect of which is that a distribution charge based on non-distribution relief given for chargeable accounting periods from January 1st, 1947, to December 31st, 1951, will be one-half of the non-distribution relief on which the distribution charge is based. In these notes the expression 'the accumulated amount of non-distribution relief' is used to mean the aggregate amount of the distribution charges which could be made; this amount is, for the reason explained in this footnote, less than the aggregate non-distribution relief actually given.

nificance, if any, attaches to the accumulated amount of non-distribution relief in relation to the requirement of Section 149 of the Companies Act, 1948, namely, that a balance sheet shall give a true and fair view of the state of affairs of the company *as at the end of its financial year*.

Circumstances Affecting the Possibility of Distribution Charges being Incurred

(9) The existence of an accumulated amount of non-distribution relief at any given balance sheet date is not necessarily of practical significance in the sense that the company could, in the state of affairs shown by the balance sheet, incur distribution charges in respect of the whole of the non-distribution relief. In some cases distribution charges could be incurred in respect of the whole amount while in other cases this will not be so, as explained in the following paragraphs.

(10) There is always a part of the non-distribution relief given for a particular year which can never give rise to a distribution charge as a result of distribution of the profits on which the relief was given. This position exists because a company is given non-distribution relief for each year on the balance of the profits for the year which remains after deducting from the total profits the amount distributed to proprietors; but the company cannot retain, and therefore can never distribute, the whole of that balance because out of it the company has to meet not only income-tax on that balance but also the whole of the profits tax charge for the year and for 1952 and 1953 the whole of the excess profits levy, where applicable. Nevertheless, the amount of the non-distribution relief in question (namely, the amount which could never give rise to a distribution charge as a result of distribution of the profits on which it was given) could result in a distribution charge if the company were to make distributions out of reserves which existed at January 1st, 1947, or out of capital profits arising since January 1st, 1947, including those on winding up.

(11) It will be apparent from the preceding paragraph that if a company were to distribute the whole of the reserves shown in the balance sheet it would not necessarily incur a profits tax charge equal to the accumulated amount of non-distribution relief; the maximum charge which it would incur might well be materially less than that amount. Nevertheless even where the accumulated amount of relief

of liquidation, the effect of Section 35 (1) of the Finance Act, 1947, is that a distribution charge cannot be made on more than the amount by which the payments to proprietors exceed the nominal paid-up capital together with any cash premiums; for this purpose, 'paid-up capital' would not include shares paid up after April 6th, 1949, by capitalizing any distributable sum (see next paragraph). No distribution charge can therefore arise on winding up if the company is unable to return to the proprietors more than the exact amount of the paid-up share capital (excluding shares paid up after April 6th, 1949, by capitalizing any distributable sum) plus any cash premiums thereon, even though a large amount of non-distribution relief has accumulated. Such a position could arise where a company had been given over a period of years substantial non-distribution relief and had subsequently incurred losses, or where on liquidation the assets do not realize their book amounts.

(13) A further complication was introduced by Section 31 of the Finance Act, 1951. In essence, the effect of the section is that where after April 6th, 1949, any distributable sum has been capitalized and then or thereafter (but after April 10th, 1951) any sum is applied in reducing capital, the smaller of the two amounts is to be treated for profits tax purposes as a distribution. Similarly, where after April 10th, 1951, any sum is applied in reducing capital and then or thereafter any distributable sum is capitalized, the smaller of the two amounts is to be treated as a distribution. Any company which since April 6th, 1949, has paid up shares by capitalizing any distributable sum, will thus include in its balance sheet capital which if returned to the proprietors would rank as a distribution for profits tax purposes. Similarly, where a company has reduced its capital after April 10th, 1951, any subsequent capitalization of profits would rank as a distribution for profits tax purposes.

Full Information in the Balance Sheet

(14) If the balance sheet had to be so drawn as to provide all the relevant information concerning possible future distribution charges, it would be necessary to include the following:

(a) The maximum distribution charge which could arise by reason of non-distribution relief given for profits tax purposes; and

(b) (i) If materially less than the figure in (a), the

become payable out of the reserves (capital and revenue) shown in the balance sheet if the whole of those reserves, after deducting that charge, were to be distributed; and also the amount of distributions which would be necessary in order to incur a distribution charge amounting to the balance of the figure in (a), together with an indication that such a charge could arise only in the event of the company making distributions (including distributions on winding up) out of future capital profits; or

- (ii) The amount of distributions (after deducting income-tax if and when necessary) which it would be necessary to make in order to incur a distribution charge of the amount in (a), if such a charge could be incurred by distributing only part of the reserves shown in the balance sheet; and
- (c) In cases falling within Section 31 of the Finance Act, 1951, the amount of reduction in capital which would rank as a distribution for profits tax purposes or, as the case may be, the amount of profits which if capitalized would so rank, together in either case with the maximum amount of profits tax (being part of the amount included in the figure in (a)).

(15) All the foregoing information could be given by note, but if desired the amount of profits tax referred to under (b) (i), or under (a) if (b) (i) is not applicable, could be shown as a specific reserve. It may however be considered that even the detail referred to in the preceding paragraph will not give full information because varying rates of non-distribution relief may have been given in previous years. On part of the reserves a much higher proportion may therefore become payable in profits tax, if distributed, than the proportion of other parts of the reserves which would be absorbed by profits tax. For example, if the whole of the reserves shown in the balance sheet amount to £x and it is stated that £y is the maximum profits tax charge which could become payable out of those reserves if they were to be distributed, the position might well be that nearly all of the sum of £y would become payable if only one-half of the reserves of £x were distributed. Accordingly, the view might be taken that to give the figures of £x reserves and £y maximum profits tax charge would not give full information (and might indeed give misleading information) unless there is also shown the make-up of these two figures according to the rates at which profits tax charges would arise.

(16) It will be apparent from the two preceding paragraphs that any attempt to give what might be regarded as the fullest information would require the balance sheet to show considerable detail. Having regard to the peculiar nature of non-distribution relief and the many unknown factors which may

ultimately determine the amount for which the company may become liable to the Inland Revenue, full details on the lines indicated in the two preceding paragraphs would not only be an over-elaboration but would in effect be an attempt to look ahead for an indefinite period of years into unknown circumstances which may never arise.

Problem of Ascertaining the Amount Involved

(17) An alternative and less complicated course would be to state either the accumulated amount of non-distribution relief, or the estimated profits tax which would become payable in the event of the whole of the reserves being distributed.

(18) If the former figure were given, namely, the accumulated non-distribution relief, it may well bear no relation to the amount of profits tax charges which could be incurred by the company in the state of affairs shown in the balance sheet. The balance sheet of one company may show reserves large enough to result in a profits tax charge up to the full amount of the accumulated relief in the event of the reserves being distributed. The balance sheet of another company may show reserves which, in the absence of future capital profits, are too small to result, on distribution, in a charge for more than a small part of the accumulated relief.

(19) On the other hand, if it were desired to give the figure of profits tax which would become payable in the event of the whole of the reserves being distributed, the question arises of how to compute a significant figure. The amount would depend on whether the reserves are distributed during the life of the company or on liquidation; and even in the case of distributions during the life of the company the profits tax charge would depend on whether the reserves represent capital profits or whether they represent amounts to be treated as net amounts after deduction of income-tax at the standard rate and therefore requiring to be grossed (at the standard rate in force at the time of distribution) in order to compute the profits tax. In the appendix hereto, examples are given showing the extreme difficulty of computing the amount of profits tax which may become payable in the event of the whole of the reserves being distributed. Moreover, in the absence of a liquidation the possibility of the whole of the reserves being distributed is remote.

(20) Even if it were possible to compute a satisfactory figure representing the profits tax which would become payable in the event of the whole of the reserves being distributed, there would be a danger of misleading the reader of the balance sheet if the amount so computed were materially less than the accumulated amount of non-distribution relief, as a distribution of subsequent capital profits could well give rise to liability in respect of the excess.

Act, 1937, the reserves of the subsidiaries concerned could not be made available in full to the holding company; in such a case the maximum amount which could be distributed to the holding company out of the reserves is the amount remaining after deducting the profits tax charge to which the distribution would give rise. In relation to overseas subsidiaries (which are not eligible for inclusion in a group for profits tax purposes), this problem requires consideration in conjunction with the general question of taxation on profits of such subsidiaries, on which some observations are contained in the pamphlet of notes on *Group Accounts in the Form of Consolidated Accounts* issued in May 1949.

- (b) Where a notice of election for group treatment is in force, any accumulated amount of non-distribution relief given to a subsidiary before the election is, for taxation purposes, treated as if it had been given to the principal company. This special position will need consideration in deciding upon the terms of any references to non-distribution relief in the balance sheets of the companies concerned.

On the foregoing and other special points, each case requires consideration in the light of the particular circumstances and the Council has therefore considered that it would be inappropriate to make in these notes any general statement on the treatment of profits tax in the accounts of companies of a group.

OPINION OF COUNSEL

(26) The foregoing notes on the treatment of profits tax in accounts have been submitted to counsel. Three counsel, acting jointly, are of the opinion that the notes are correct in so far as they deal with matters of law. Two other counsel, acting jointly, disagree with that opinion because although in their opinion the existence of an accumulated amount of non-distribution relief does not constitute either a liability or a contingent liability at the balance sheet date, nevertheless they consider that if the balance sheet is to give a 'true and fair view of the state of affairs of the company as at the end of its financial year' the balance sheet should indicate the accumulated amount of such relief. This aspect of the matter is therefore not free from doubt; the conclusions set out in paragraph (24) are in accord with the views of the three counsel who have approved the document in all respects from the legal standpoint.

APPENDIX

Calculation of the Maximum Profits Tax Charge which a company can incur by distributing the whole of its reserves

For reasons explained in paragraph (d) of this appendix the expression 'distribution charge' has not been used in the calculations.

Assumed figures	£	£	£
Profit			100,000
Income-tax at 9s		45,000	
Distribution, gross	20,000		
Less Income-tax at 9s	9,000		
		11,000	
Profits tax at 22½ per cent on £100,000	22,500		
Less Non-distribution relief at 20 per cent on £80,000 (£100,000 less £20,000)	16,000		
		6,500	
Excess profits levy at 15 per cent on £100,000 (maximum)		15,000	
			77,500
Undistributed balance			£22,500

(a) The company has an available balance of £22,500 and it might appear that should the company decide to distribute the whole of this balance it would incur a profits-tax charge equal to the non-distribution relief which has been given. This is not so, however, since if the company were to distribute this balance it would do so in the following manner:

	£	£
Gross distribution	30,000	
Less Income-tax at 9s	13,500	
		16,500
Profits tax at 20 per cent on £30,000		6,000
		£22,500

The maximum profits-tax charge which the company would incur by distributing the whole of its remaining balance is therefore only £6,000, leaving non-distribution relief of £10,000 (£16,000 less £6,000) which can only give rise to a profits-tax charge if the company makes distributions out of pre-1947 reserves or capital profits.

(b) It is not necessary to make a computation on the foregoing lines in order to ascertain what profits-tax charge would arise on distribution of the reserves shown in the balance sheet. It can be shown by calculation that the amount of the charge is either a specified proportion of the total reserves, or the accumulated amount of non-distribution relief, whichever is the smaller. The smaller of these two amounts represents the maximum profits-tax charge which could be incurred by distributing to proprietors such an amount as together with the resulting profits-tax charge will exhaust the whole of the reserves. In order to determine the specified proportion it is necessary to ascertain the equivalent gross amount of the sums actually distributed to proprietors. With income-tax at 9s and profits-tax 'distribution rate' at 20 per cent, this is ascertained as follows:

$$\text{Gross equivalent of actual distribution} = £x$$

$$\text{Actual net distribution} = \frac{11}{20} £x$$

$$\text{Profits-tax charge} = \frac{20}{100} £x$$

$$\frac{11}{20} £x + \frac{20}{100} £x = \text{amount of available reserves}$$

$$£x = \frac{4}{3} \text{ of the available reserves.}$$

The amount of the profits-tax charge arising from the clearance of the whole of the reserves is therefore

$\frac{20}{100} \times \frac{4}{3}$ of the available reserves, in other words, $\frac{4}{15}$ ths of the available reserves. Thus, $\frac{4}{15}$ ths of the undistributed balance of £22,500 shown in the illustration, gives £6,000, which is the charge shown in the illustration.

(c) By similar calculation it can be shown that the relevant proportions for profits-tax charges based on non-distribution relief given at other rates are as follows:

$\frac{2}{13}$ ths in respect of profits-tax charges at 10 per cent
 $\frac{3}{25}$ ths " " " " $7\frac{1}{2}$ "

The maximum charge at any given balance-sheet date would therefore be computed by ascertaining the aggregate of the following amounts:

$\frac{4}{15}$ ths of the total reserves up to the point where such fraction equals the accumulated amount of non-distribution relief at 20 per cent.¹

$\frac{2}{13}$ ths of the remaining reserves up to the point where such fraction equals the accumulated amount of non-distribution relief at 10 per cent.¹

$\frac{3}{25}$ ths of the remaining reserves up to the point where such fraction equals the accumulated amount of non-distribution relief at $7\frac{1}{2}$ per cent.¹

The sum of these three amounts, but not exceeding the total accumulated amount of non-distribution relief, represents the maximum profits-tax charge which could be incurred by distributing the whole of the reserves. Assume that a company has retained reserves of £100,000 and accumulated non-distribution relief as follows:

£15,000 at 20 per cent
 5,000 at 10 " "
 5,000 at $7\frac{1}{2}$ " "

£25,000 Total accumulated non-distribution relief.

The maximum profits-tax charge which the company would incur by distributing the whole of its reserves can therefore be calculated as follows:

Profits-tax charge		Relevant reserves
£		£
15,000 multiplied by $\frac{15}{4}$	=	56,250
5,000 " $\frac{13}{2}$	=	32,500
		88,750
1,350 representing $\frac{3}{25}$ ths of the balance of the reserves of		11,250
<u>£21,350</u>		<u>£100,000</u>

¹ The rates used here are the rates at which distribution charges could be made, following the Finance Act, 1952, and not the original rates at which the non-distribution relief was given prior to January 1st, 1952 (see footnote to paragraph 7). The standard rate of income-tax has been taken as 9s in the £.

The £100,000 reserves would be distributed as follows:

Distribution			Profits-tax charge		Total
Gross	Tax at 9s	Net	Rate per cent on gross distribution	Amount of charge	(Net distribution plus profits tax charge)
£	£	£	per cent	£	£
75,000	33,750	41,250	20	15,000	56,250
50,000	22,500	27,500	10	5,000	32,500
18,000	8,100	9,900	$7\frac{1}{2}$	1,350	11,250
<u>£143,000</u>	<u>£64,350</u>	<u>£78,650</u>		<u>£21,350</u>	<u>£100,000</u>

(d) Throughout the foregoing calculations the expression 'profits-tax charge' has been used and there is no reference to a 'distribution charge'. The reason for this is that in making a calculation of the maximum profits-tax charge which could be incurred by distributing the whole of the reserves, it is not possible to distinguish between:

(i) that part of the total charge which would be a distribution charge; and

(ii) that part of the total charge which would merely be part of the profits-tax charge on the profits of the year for which the distribution is made.

This difficulty can best be illustrated by reference to the example given above of a company distributing £100,000 reserves. Before any distribution charge can arise it is necessary for the company to have distributed the whole of its profits for the year in which the reserves are distributed; but the company cannot in fact distribute in gross dividend an amount equivalent to the whole of the profits of that year unless it draws from reserves an amount equal to the taxation, other than income-tax, which has to be borne on those profits. Such drawing upon reserves would reduce the amount of £100,000 given in the example and it would be on the reduced amount that a distribution charge would arise. This technical distinction between (i) a distribution charge, and (ii) a profits-tax charge which is not a distribution charge, does not however affect the amount of profits tax involved; in the example given above the sum of £21,350 would become payable partly in distribution charge and partly in the form of profits tax on the profits of the year in which the distribution takes place. This statement is subject to one qualification; the incidence of the rates at which non-distribution relief has been given may result in a larger amount of profits tax being payable than the £21,350 shown in the example. The reason for this is that a charge at 20 per cent in respect of part of the current year's profits may replace what would have been a distribution charge at 10 per cent or $7\frac{1}{2}$ per cent.

(e) The foregoing calculations have been prepared on the assumption that all reserves represent amounts which if distributed to proprietors would represent net amounts after deduction of income-tax at the standard rate. This however will not necessarily be the case. Some of the reserves may represent capital profits which, if distributed, would not require to be grossed up at the standard rate. Moreover, any distributions on liquidation would similarly not require to be grossed up.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

FOURTEENTH ANNUAL DINNER

The Institute and Publicity

The South Eastern Society of Chartered Accountants held their fourteenth annual dinner at *The Hotel Metropole*, Brighton, on Friday, November 6th, 1953, with Mr G. P. Morgan-Jones, M.A., F.C.A., President of the Society, in the chair. Members and guests numbering 290 – a record attendance – were received by Mr Morgan-Jones and by Mr James Blakey, F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among the official guests were the Rt. Hon. Earl de la Warr, P.C., Her Majesty's Postmaster-General, Mr D. S. MacLachlan, and

Messrs F. W. Allam, M.C., F.R.I.C.S., F.A.I. (*Chairman, Royal Institute of Chartered Surveyors, Sussex Branch*); F. V. Arnold, F.S.A.A. (*Chairman, Brighton and Hove Chamber of Commerce*); F. G. Dawes, F.C.I.S. (*President, Chartered Institute of Secretaries, Sussex Branch*); W. G. Densem, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); L. V. Donne (*President, Sussex Law Society*); Derek du Pré (*Editor, 'The Accountant'*).

Messrs G. G. G. Goult, F.C.A. (*President, East Anglian Society of Chartered Accountants*); N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*); J. S. F. Hill, F.C.A. (*President, Nottingham Society of Chartered Accountants*); M. P. V. Leigh, A.C.A. (*Sussex Students' Society, Brighton Branch*); R. Leng (*Sussex Students' Society, Hastings Branch*); J. J. Longland, A.C.A. (*Portsmouth and District Chartered Accountants' Students' Society*).

Messrs A. S. MacIver, M.C., B.A. (*Secretary, The Institute of Chartered Accountants in England and Wales*); J. Braynard Moore, M.B.E., F.A.I. (*President, Brighton and Hove Auctioneers' Association*); C. Denis Pilcher, J.P., F.R.I.C.S., F.A.I. (*Chairman, Sussex Branch, Chartered Auctioneers' and Estate Agents' Institute*); B. A. Schanschieff, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*).

Messrs W. P. Scowcroft, A.C.A. (*President, Liverpool Society of Chartered Accountants*); E. C. Sherwood, A.A.C.C.A. (*Official Receiver*); R. W. Stevens (*Southampton and District Chartered Accountants' Students' Society*); N. W. Watkins, F.A.C.C.A. (*President, South Eastern District Society of the Association of Certified and Corporate Accountants*); E. Webb, F.S.A.A. (*President, Incorporated Accountants District Society of Sussex*); E. Whitley-Jones (*President, Institute of Bankers, Brighton Section*).

The Postmaster-General

The Rt. Hon. Earl de la Warr, proposing the toast of 'The Institute of Chartered Accountants in England and Wales and the Accountancy Profession', paid tribute to the memory of the late Mr Percy Morgan-Jones, father of Mr G. P. Morgan-Jones, and described him as having 'the true simplicity of a really fine English gentleman'. (Hear, hear.)

Lord de la Warr stressed the important part that the profession plays in the life of the nation, laying particular emphasis on the accountants' task of promoting efficiency in management of our industries.

'We must regain the national will to win, and that we are doing so is a most encouraging factor in the national outlook.' (Applause.)

The Institute's Pre-eminence

Mr Blakey said in reply:

'It is my duty, as it is also my pleasure, during my year of office as your President, to do everything in my power for the good of the Institute and all the categories of its members and also to keep the name of the Institute pre-eminent in this country.

'That pre-eminence can, of course, only in the long run be maintained by the quality of our individual work. It is right that this should be so and it is evidence that this is the position today as judged by the overwhelming proportion of the accounts of public and private companies which are audited by our members and by the extent to which their names appear on prospectuses.

The Small Practitioner

'I am, however, very conscious that this kind of reflection may be cold comfort and certainly is not a complete answer to the small practitioner often practising in rural areas and having difficulty in keeping up his end against his competitors, qualified and unqualified.

'He may think at times that the Institute does not help him sufficiently and I feel it might be of interest to speak of these difficulties, as I see them, as your district society area is such a scattered one. May I, as a provincial member, assure you that the Council of the Institute does not think solely of the big firms, but is continually concerned about the smaller practitioner?

'I think the smaller practitioner suffers from two great disadvantages. First, the isolation which he no doubt feels and, secondly, the activities of the unprofessional practitioner who is at liberty to advertise, whereas our members must of necessity keep to a high standard of professional conduct. Let us therefore take these two disadvantages and see if we can help in some way.

'As regards isolation, where a member is practising on his own there must be many occasions when he feels the need for a talk with a colleague on a difficult matter. Not unnaturally, he hesitates to approach a fellow practitioner because he may think that this will result in him losing a client. Personally I do not think that this applies. I am sure there must be friends near at hand who would be prepared to help with advice. If not, I would point out that there is an advisory subcommittee of each district society to which he may apply for informal advice when confronted with a difficult question of practice.

'I know that the practitioner in the rural area may of course say that he is too far away to consult the district society, but I am sure that the panel would give advice expeditiously and, I am sure, ably assisted by his lordship as Postmaster-General doing his part.' (Laughter and applause.)

Publicity

'The second disadvantage as regards the competition of the unqualified practitioner presents considerable difficulty, but I can assure you that the Council is ever mindful of this question of publicity or educating the public to consult a qualified practitioner for its own sake. In fact, I attended a meeting only two days ago of a subcommittee which has this particular matter in hand.

'The difficulty is the question not so much as to whether there should be suitable publicity but as regards the method. You are probably aware that fairly recently we

have asked for suggestions from the district societies taking into account their peculiar difficulties.

Co-ordination

'It was, of course, thought at one time that co-ordination might be the answer to the problem. Very strenuous and honest efforts were made to implement the proposals and one of the reasons why they were eventually turned down was that on looking at the results dispassionately, we could not really say that they helped the small man.

'There were, of course, admittedly other difficulties, in particular that of defining adequately an accountant and a practising accountant in a world where everyone, including bankers and solicitors, are bound to touch on accountancy work.

'It was obvious from the first that chartered accountants would be giving away something under the co-ordination proposals and one of the reasons why we were prepared to face this was to help the small man.

'When these proposals failed, we did not throw up the sponge but are still trying to regulate the profession and, in particular, are working with the Board of Trade with intent to amend Section 161 of the Companies Act so that the audit of all limited companies shall be restricted to qualified people.'

The 'Closed Shop' Principle

'You must, however, understand that there is a limit beyond which we cannot go and, indeed, a limit beyond which Parliament would not let us do so even if we wished. Public opinion, as you know, is very critical of what is called the "closed shop".

'One of the reasons why the present Companies Act did not require the auditors of all companies to be qualified but left a loophole in respect of private exempt companies was that Parliament was not satisfied that if the "closed shop" principle was applied, to that extent there would, in fact, be enough qualified accountants to go round.

What is the Solution?

'What is, therefore, the solution? I think personally that firstly we must maintain and enhance the high quality of our work and standards until they permeate into the business community for its own sake and advantage and then these potential clients who have been to unqualified practitioners will of necessity be forced into our hands.

'Secondly, some method of bringing before the public on any and every suitable occasion the high standards of work and conduct of the Institute as a whole.

'If, therefore, any of you have any suggestions to make on this subject, I shall be delighted to have them provided that they are submitted with a reasoned view of the back-

ground which I have tried to sketch. I will certainly see that they get through to the proper quarters.

Warm Tributes

'I should now like to conclude on a more personal note and I would like first of all to congratulate you, Mr Chairman, on becoming President of this Society and following the high traditions set by your late father whom I numbered amongst my personal friends and whose work on the Council will ever be remembered.' (Applause.)

The toast of 'Our Guests' was proposed by Mr P. D. Irons, B.COM., A.C.A., F.C.W.A.; Mr Derek du Pré replied.

The toast of 'The South Eastern Society of Chartered Accountants' was proposed by Mr MacLachlan, who said that traders appreciated the advice of their accountants which assisted them in dealing with the complex difficulties of today. He congratulated Mr G. P. Morgan-Jones on being the first son to follow his father in the office of President of the Society. (Applause.)

The Society Attains its Majority

In his reply, Mr Morgan-Jones said that the Society had this year attained its majority, having been formed in 1932. He illustrated the difficulties encountered by the Society by drawing attention to the map of the area which appeared on the cover of the programme. To overcome the disadvantages of the rather sprawling area, the Society had flourishing local groups operating from seven different centres. He thought that this was the largest number of local groups in any district society area. (Applause.)

It was also difficult, he said, to provide adequate facilities for students, and he stressed the importance of the students' residential course which was of great use to distant students.

In conclusion, he congratulated Mr R. McNeil, F.C.A., on his appointment to the Council of the Institute. He thanked the honorary secretary, Mr A. G. J. Horton-Stephens, F.C.A., for his hard work in connection with all the activities of the Society, and the honorary assistant secretary, Mr D. H. Tonkinson, A.C.A., for making the admirable arrangements for the dinner. He also thanked Mr A. Jolly, F.C.A., for acting as toastmaster during the evening. Mr Morgan-Jones's speech was greeted with loud applause.

NOTES AND NOTICES

Personal

MESSRS CREW, TURNBULL & Co, Chartered Accountants, of George Street West, Luton, and at London, Dunstable and Paris, announce that as from November 1st they have taken into partnership Mr ERIC GEOFFREY SQUIRES, who has been in the service of the firm for several years. Mr SQUIRES is a grandson of the late Mr B. T. Crew. The name of the firm will remain unchanged.

MESSRS H. LOMAX & Co, Incorporated Accountants, of 83 Bridge Street, Manchester, 3, and at Formby, Lancs and Cheddar Hulme, Cheshire, announce with regret the death, on November 2nd, of their partner Mr ALAN WOOD, F.S.A.A. Mr WOOD was articled to Mr H. LOMAX, F.S.A.A., and had been

with the firm for some thirty years. The practice will be continued by Mr LOMAX.

MESSRS WOOLGER, HENNELL, SCOTT-MITCHELL & Co, Chartered Accountants, of Moorfields Chambers, 165-167 Moorgate, London, EC2, announce that Mr B. MACDONALD HENNELL, M.A., A.C.A., the son of their senior partner, who has served, both under articles and subsequently, with the firm, has now been taken into partnership.

MESSRS LEACH, JOHNSON, TRAVIS & Co, Chartered Accountants, of 32 Kennedy Street, Manchester, 2, and 20 Obun Eko Street, Lagos (and C. H. TRAVIS & Co, 128 Mount Street, London, W1) announce that as from September 1st, 1953, they have taken Mr CYRIL ALBERT NOLAN, A.C.A., into partnership in their Lagos practice.

Professional Notes

Mr H. W. Holt, A.C.A., chief accountant of The Midland Counties' Dairy Ltd, Birmingham, since 1946, has been appointed a director of The Midland Counties' Dairy (Coventry) Ltd. Mr Holt is convener of the management accounting discussion group of the Birmingham and District Society of Chartered Accountants.

Councillor E. Ewart Pearce, M.B.E., J.P., F.S.A.A., a past President of the Incorporated Accountants' South Wales and Monmouthshire District Society, has been appointed deputy chairman of the Finance Committee of the Cardiff City Council.

Mr R. H. Gilliam, A.C.W.A., A.I.M.T.A., has been appointed Cornwall sub-area accountant of the South Western Electricity Board.

Mr E. W. Beattie, C.A., has joined the board of directors of Turney Brothers Ltd, Nottingham. He will continue to act as secretary.

In our issue of October 31st, 1953, we said that Mr W. J. Lee, A.C.A., had been appointed managing director of Hattersley (Ormskirk) Ltd. This was not correct: Mr Lee has been appointed assistant managing director.

Deputy-Lieutenant of Northumberland

The name of Lieut.-Col. R. P. Winter, M.C., T.D., F.C.A., is among those of seven newly-commissioned deputy-lieutenants for the county of Northumberland.

Lieut.-Col. Winter is a member of the Council of the Institute and a partner in the firm of Winter, Robinson, Sisson and Benson, Chartered Accountants, of Newcastle upon Tyne.

London and District Society of Chartered Accountants

At a meeting of the London and District Society of Chartered Accountants to be held next Wednesday, at 6 p.m., in the Oak Hall of the Institute, Mr H. F. Lock, B.Sc., Assistant Director of the National Institute of Industrial Psychology, will speak on 'Staff selection'.

Committee on the Economic and Financial Problems of the Provision for Old Age

The Committee on the Economic and Financial Problems of the Provision for Old Age, under the chairmanship of Sir Thomas Phillips,¹ has now reached the stage when they would welcome evidence from individuals, institutions and organizations who are interested in their terms of reference. These are:

'To review the economic and financial problems involved in providing for old age, having regard to the

prospective increase in the number of the aged, and to make recommendations.'

It should be noted that the committee is concerned with the economic and financial problems arising from the changing age-structure of the population and not with specific levels of provision for the individual pensioner.

Evidence in the form of written memoranda should be submitted to the joint secretaries, Treasury Chambers, Great George Street, SW1, not later than March 31st, 1954.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday, 5.30 p.m.: Lecture (at Caxton Hall, Victoria Street, SW1) - 'The law on sale of goods', by Mr C. Grunfeld, M.A., LL.B. (Lecturer in Law, University of London).

Tuesday: All-day visit to Barclays Bank (Limited number.)
Thursday, 6 p.m.: Dinner debate. Motion - 'That this house would have preferred life in the days of Good Queen Bess.'

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students. *5.15 p.m.:* Introductory course lectures on (1) 'The basic principles of double-entry and the organization of accounts'; (2) 'Partnership and company law.'

Manchester Chartered Accountants' Students' Society

The report of the committee of the Manchester Chartered Accountant Students' Society for 1952-53 which was presented at the Society's seventieth annual meeting held recently, records a further rise in membership during the year, bringing the total to 908. A comprehensive programme of meetings was held during the winter session of 1952-53 and included visits to the head office of the District Bank and to the works of a Manchester company.

The annual meeting was preceded by an informal tea party for articled clerks who joined the Society between October 1952 and March 1953. After a welcome by the President, Mr M. Wheatley Jones, F.C.A., the purpose of the Students' Society and the functions of the Joint Tuition Committee were briefly explained by Mr T. W. E. Booth, A.C.A., and Mr F. C. Hoyle, B.A., F.C.A.

The officers of the Society for 1953-54 are as follows:

President: Mr J. Howard Bell, B.A., F.C.A.

Vice-President: Mr F. L. Chaplin, F.C.A.

Chairman: Mr H. G. Walton, M.A., A.C.A.

Hon. Librarian: Mr A. Rothburn, A.C.A.

Hon. Secretary and Treasurer: Mr Trevor W. E. Booth, A.C.A., Messrs E. A. Radford, Edwards & Co, 52 Brown Street, Manchester, 2.

¹See *The Accountant*, August 1st, 1953, at page 136.

JOHN FOORD & COMPANY

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VALUERS AND ASSESSORS

OF WORKS, FACTORIES, PLANT & MACHINERY, Etc.

Hon. Secretary, Joint Tuition Committee: Mr F. C. Hoyle, B.A., F.C.A., Messrs David Smith, Garnett & Co, 61 Brown Street, Manchester, 2.

Asst. Secretary and Treasurer (to whom all general communications should be sent): Miss I. Ritchie LL.B., Chartered Accountants' Hall, 60 Spring Gardens, Manchester, 2.

The Chartered Accountants' Students' Society of Kingston upon Hull

The Society's programme of meetings for 1953-54 commenced on October 16th and future meetings, to be held at the Young People's Institute, George Street, Hull, are as follows:

December 4th: 'Negotiable instruments', by Mr W. Whitworth (solicitor).

December 18th: A debate (To be arranged.)

January 8th, 4.15 p.m.: 'The Stock Exchange' and 6.15 p.m.: 'The banker and his commercial customer', by Mr C. R. Curtis, PH.D., M.Sc., F.C.I.S.

January 29th: 'Company law - directors', by Mr J. L. Gayler, LL.B., B.COM.

February 19th: 'Capital allowances on plant and machinery', by Mr C. G. A. Try, H.M. Inspector of Taxes.

March 4th, 4.15 p.m.: 'Cost accounts', and 6.15 p.m.: 'Branch accounts', by Mr W. W. Bigg, F.C.A., F.S.A.A.

March 19th: A debate. (To be arranged.)

April 9th: 'Auditing in regard to mechanical book-keeping systems', by Mr G. M. Mowforth, A.C.A.

April 13th: 'The Hull Professional Associations' joint meeting.

April 23rd: A mock company meeting.

Members of the senior society, as honorary members of the Students' Society, are cordially invited to attend the lectures. The times of the double lectures are noted above; the other meetings commence at 6.15 p.m.

Setting Up an Organization in Brazil

The Brazilian Chamber of Commerce and Economic Affairs in Great Britain is sponsoring a memorandum by Mr J. S. Carolin, M.B.E., A.C.A., past chairman of the British Chamber of Commerce in Brazil (Inc.), on the setting up of an organization in Brazil by a United Kingdom registered company with particular reference to the most suitable form of organization.

Copies of this informative memorandum can be obtained from the Chamber at 60 Lincoln's Inn Fields, London, WC2, on payment of one guinea.

The Institute's Autumnal Meeting:

Photographs

The photograph of the platform at the opening session of the Institute's autumnal meeting appearing on page 441 of our October 17th issue, and that of the group taken before the civic reception on page 449 of that issue, were taken by Walkers Studios, St Thomas Street, Scarborough. The other photographs reproduced in the October 17th issue, as well as those appearing in the October 24th issue, were taken by *The Yorkshire Herald*, Coney Street, York.

Readers wishing to obtain copies of any of these photographs should write direct to the addresses given above.

For New Sur-tax Payers

The Inland Revenue have issued some 'Explanatory Notes' (leaflet 700) about sur-tax for the benefit of taxpayers becoming liable for the first time. The five pages of notes include two arithmetical examples, one to illustrate how total income is computed and one dealing with partnership allocations.

Incorporated Accountants' District Society of North Staffordshire

The annual meeting of the Incorporated Accountants' District Society of North Staffordshire was held recently at *The Grand Hotel*, Hanley, when the following officers were elected for 1953-54:

President: Mr E. Downward, F.S.A.A.

Vice-Presidents: Messrs F. S. Ralphs, A.S.A.A., and R. A. Hamilton, A.S.A.A.

Hon. Treasurer: Mr L. Goodwin, F.S.A.A.

Hon. Secretary: Mr R. A. Hamilton, A.S.A.A., c/o Messrs J. Paterson Brodie & Son, Moor House, Moorland Road, Burslem, Stoke-on-Trent.

Committee: Messrs A. Brodie, F.S.A.A.; W. S. Dalby, A.S.A.A.; L. G. Fetzner, F.S.A.A.; W. A. Follows, A.S.A.A.; T. W. Porter, A.S.A.A.; E. S. Stoddard, F.S.A.A.; N. S. Stoddard, A.S.A.A.; A. P. Walker, A.S.A.A.; A. G. B. Smith, A.S.A.A.; C. A. Tavernor, A.S.A.A.; F. A. Teasdale, A.S.A.A.; T. B. Green, A.S.A.A.; J. P. Elliot, A.S.A.A.; K. V. Longbottom, F.S.A.A.; A. H. Mountford, A.S.A.A., and E. R. Hall, A.S.A.A.

Death Duties

An interesting memorandum entitled *Death duties and their effect upon privately owned companies* can be obtained free of charge on application to Mr Reginald Terrell, 46 St James's Place, London, SW1.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 16TH, 1878

Extract from a Note in Passing

Compulsory Audits

We have frequently had occasion to express our regret that some of the questions with which accountants are specially concerned are so seldom made the subject of consideration in the lay press. This omission has seemed to us a fault of no small magnitude, for the questions to which we allude are of undoubted importance to the commercial world. Yet they seldom receive attention from any journals but those which, like ourselves, address but a necessarily circumscribed audience. For instance, there are few subjects more worth careful consideration on the part of business men than that of audits; yet how seldom do we see it discussed in quarters where it is likely to obtain the attention of those it most concerns. . . .

MOTOR — FIRE — CONSEQUENTIAL LOSS

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The Accountant

ESTABLISHED 1874

NOVEMBER 21ST, 1953

VOL. CXXIX. NO. 4118

CONTENTS

Leading Articles	<i>Page</i>
Reports for Prospectuses	565
The Housing Repairs and Rents Bill	566
Special Articles	
The Sacred Cows of Taxation by <i>Alun Grier Davies</i>	567
Standard Costing in a South African Metal Window Factory by <i>Frederick G. Beard, B.Com., F.A.C.C.A., F.C.W.A., F.C.I.S., of Durban</i>	569
Australasian Commentary - XIV by <i>S. R. Brown, LL.B., F.C.A.(Aust.)</i>	571
Weekly Notes	573
Finance and Commerce	574
Correspondence	578
Current Law	579
Reviews	580
The Institute of Chartered Accountants in England and Wales	
Recommendations on Accounting Principles - No. XVI	581
Northern Society of Chartered Accountants	
Annual Dinner	588
Incorporated Accountants' District Society of Sussex	
Annual Dinner	589
Notes and Notices	
The Institute of Chartered Accountants in England and Wales: Associates elected to Fellowship and applicants admitted to Membership - Personal - Professional Note - Dividend Mandates - The Institute of Cost and Works Accountants - Revenue Paper: Michaelmas Sitings, 1953 - <i>Annotated Tax Cases</i> - Monopolies and Restrictive Practices Commission - The Chartered Accountant Students' Society of London - Liverpool Chartered Accountant Students' Association - British Transport Commission Costing Service - Twenty-five Years Ago - Seventy-five Years Ago	590

REPORTS FOR PROSPECTUSES

MANY will read Recommendation XVI, reproduced elsewhere in this issue, with a feeling that accountants' reports for prospectuses are not of importance to them. It will only be when they next have to consider - possibly quite unexpectedly - the preparation of such a report that they will appreciate that this latest publication by the Council of the Institute is a valuable contribution to the profession. This recommendation has to be read in conjunction with Recommendation XIII which dealt with fixed assets and depreciation and their treatment in accountants' reports.

It is almost axiomatic that every accountants' report for prospectus purposes poses some special problem. These two documents do not purport to deal with every special circumstance but they recommend the procedure to be adopted in connection with a large numbers of matters.

The introduction contains useful information as to Stock Exchange requirements and the recommendations deal with a number of the more usual adjustments required as respects the figures of profits or losses or assets and liabilities. In addition, there are helpful recommendations on the method of presentation, treatment of taxation, changes in sources of income, and the important point of the context in which the report is included.

Stress is laid on the importance of trend of profits, and reference is made to the need to review methods of valuing stock-in-trade throughout the period as variations or inconsistencies could have a material effect on the trend.

Several paragraphs of the introduction and recommendations relate to taxation questions. Profits have long been stated before deduction of income-tax but recent practice has varied in regard to the treatment of other taxes upon profits, such as excess profits tax and profits tax. The Council favours the practice of omitting reference to such other taxes except in exceptional circumstances. Amounts in respect of excess profits tax, or profits tax at rates no longer applicable, do appear irrelevant, and the conclusion that statements of profits or losses before charging any United Kingdom taxation will normally be more informative and less likely to be misunderstood appears to be well founded.

One of the recommendations reflects a recent change in practice.

'The accountants' report deals with the assets and liabilities at the last balance sheet date and should therefore not include any addition in respect of the expected proceeds of the issue. This can appropriately be dealt with elsewhere in the prospectus.'

The accountants are reporting upon the past and upon facts. They do not purport to forecast the future. The intending

investor on the other hand, is concerned with the future and he will regard the accountants' report as being submitted to assist him in forming his own assessment of the prospects. There are therefore many considerations which the accountants must weigh carefully to ensure that their report is not only factual but is also presented in such terms as will not lead a reasonable person to draw wrong conclusions about the significance of the figures. The accountants are also concerned with what is said elsewhere in the prospectus about their figures.

Rightly, the law casts a very cautious eye on everyone associated with a public invitation to part with money and if events later take an ill turn there is a possibility of a reporting accountant finding himself, as happened a few years ago, in the dock on a criminal charge. Acquittal is no recompense for the anguish and indignity suffered by an honest accountant in having to face such a charge. That it can be brought against an account-

ant is a forceful reminder of the heavy responsibilities undertaken by accountants preparing reports for prospectus purposes. Such work ranks with the most difficult that public accountants are called upon to do.

The difficulty of the work is the greater because of the infrequency with which it has to be done. It presents special problems which the accountant may be facing for the first time and may never have to face again in quite the same form. The Council has therefore rendered a most valuable service to members of the Institute in making recommendations behind which lies the incomparable experience that must be available among the members of the Council.

Although Recommendation XVI is highly technical, it can in one respect be read with advantage by the public at large. Its very nature has resulted in continual emphasis on the essence of the public accountant's job - to see that the truth is stated and stated fairly.

THE HOUSING REPAIRS AND RENTS BILL

PUBLICATION of the Government's Housing Repairs and Rents Bill followed swiftly on the White Paper, *Houses: the next step*¹ which we reviewed last week.

The Bill is a formidable one, containing forty-four clauses and five schedules. It is divided into three parts; the first takes up seventeen clauses and deals with slum clearance and minor amendments of the Housing Acts. The second, of twenty-three clauses, contains amendments of the Rent Restriction Acts, ten of the clauses being concerned with the permitted repairs increases, and the remaining clauses with other amendments of the Rent Acts. Part III contains general provisions.

We said last week that much would depend on the new definition of 'fit for human habitation'. The question is now answered by clause 7 (1).

Clause 25 contains a useful provision in relation to permitted increases in rent in respect of repairs. A recent case has emphasized that in the absence of express terms in a weekly tenancy, neither landlord nor tenant is under any contractual obligation to carry out repairs. It is only fair, however, that a landlord in such a case who voluntarily repairs the house should have a rent increase equally with the landlord who does it

because he is contractually bound to repair. Clause 25 ensures that this is done.

Another useful provision in favour of the landlord is contained in clause 26 (1). Suppose the landlord carries out his part of the bargain but the tenant neglects to carry out repairs which he is contractually bound to carry out - say, internal repairs. That would prevent the house from being in good repair, and, but for clause 26 (1), would prevent the landlord from obtaining any increase in rent in respect of his own expenditure. The subclause directs that defects due to the tenant's breaches of his own agreement are to be disregarded in determining good repair.

A significant change is proposed in clause 31 in relation to new conversions of a larger house into two or more separate dwellings. The standard rents of the individual dwellings are not to be arrived at by apportioning the standard rent of the original house. Instead, each new dwelling is to be dealt with as what it actually is, namely, a new house.

It is perhaps unlikely that the Bill will escape substantial amendment in the House of Commons; some of the changes are likely to be hotly contested. Nevertheless, the need for some change on the lines of the Bill is unquestionable.

¹ Cmd. 8996. H.M.S.O. 9d net.

THE SACRED COWS OF TAXATION

by ALUN GRIER DAVIES

WHAT Gladstone said about income taxation on the occasion of his 1853 Budget was tentative and apologetic enough:

'... In my individual opinion it is perfectly plain, from the mode in which the income-tax was put an end to in 1816, that it is not well adapted for a permanent portion of your ordinary financial system. Whether it is or not, on which there is great difference of opinion, yet I think it is on all hands agreed, that it is not adapted for a permanent portion of your fiscal system, unless you can by reconstruction remove its inequalities. Even if you could remove its inequalities, a question which we will patiently examine, there would still remain, in my mind at least, objections to it of the gravest character. . . .'¹

A hundred years later the income-tax is treated with almost mystic reverence. It is not suggested that the subject is one to be dealt with frivolously, any more than a convict could be expected to make amusing comment on the ball and fetters that are his constant companions. We have, however, reached the stage when we are adding mythology to the mystery of taxation. The devout Hindu regards the cow as an object of veneration; no rhyme and no reason enter into his attitude. Taxation has likewise built up a sacred herd which promises to rival any Eastern religion.

In writing of the sacred herd we do not intend to refer to the 'herd basis' or to any other beneficial practice whereby the heaviness of taxation is made to lie less hardly on the farming community. We do not even wish to explore much further some of the doubts which surround our scanty knowledge of farming. It will be sufficient to say that perhaps the authorities at Somerset House are as lost in the farm yard as we would be. How else is it possible to account for the fact that in the last sentence of paragraph 7 (2) of the Twentieth Schedule, Income Tax Act, 1952, they left the job half done?

The first, and perhaps the most venerated of our sacred cows is the secrecy which surrounds so much in taxation practice today. It is as if the interpretations of Somerset House and the decisions of the Special Commissioners formed a sort of magical incantation or abracadabra which must be repeated to the popular gaze.

Rationally, there is everything to be said, one would have thought, for the Inland Revenue publishing the more significant of its interpretations in some regular form of announcement, like the Bulletin issued periodically by the United States Internal Revenue. Could we perhaps apply the scriptural analogy that the sabbath was made for man, not man for the sabbath?

The decisions of that most efficient and admirable body, the Special Commissioners, are never published, except when their decisions are taken by way of appeal to the High Court. Is there any valid reason why they should not be made public, except tradition? Other countries, like Canada and Australia, publish the decisions of comparable boards of appeal, with great profit and enlightenment to practitioners in taxation. Are the decisions of the Special Commissioners so special that they can only be revered while wrapped in mystery? Perhaps the Royal Commission will kill this particular bovine.

Another sacred cow in the taxation field is the traditional belief that tax avoidance is indefensible. It is only fair to say that this particular animal is a fairly recent addition to the sacred herd, because it was only during the Second World War that judicial deference was given to the animal. But it is becoming a tradition to regard tax avoidance as immoral. '... It scarcely lies in the mouth of the taxpayer who plays with fire to complain of burnt fingers. . . .' (*Lord Howard de Walden (Scott-Ellis) v. C.I.R.* (27 A.T.C. 317; 30 T.C. 345)) is as good a quotation as any on this subject. One is not disposed to argue the morality or otherwise of tax avoidance – that is not the point. What is relevant is that tax avoidance is practised by the Inland Revenue as well as the taxpayer. If we are to accept, uncritically, the proposition that tax avoidance is morally wrong, the Inland Revenue must also make obeisance. So far, they have not. For what, after all, is tax avoidance but a wearisome emphasis on the letter of the law? (There is, of course, no 'intention' in a tax statute; neither has the tax avoider, he merely insists on the letter of the law.) It was the Inland Revenue who took the case of Barnardo's Homes (*R. v. Special Commissioners; ex parte Dr Barnardo's Homes* (7 T.C. 646)) to law on a technicality, and this showed the way to sur-tax avoidance on the same issue. There are many other cases to

illustrate the same tendency to forget the story of the mote and the beam.

Traditionally, the Inland Revenue has had great powers in reserve to allow it to exercise, with due authority, the management of the taxes. It is time that the right to exercise these powers was subject to the light of reason, so that a more proper balance of rights should exist between the administration on the one hand and the citizen on the other. One of the most obvious of the powers which needs adjustment is that of 'discovery'. The Courts have interpreted this in a very wide sense, and the recent case of *Earl Beatty*¹ shows that a Revenue decision given after full disclosure of the facts by the taxpayer does not prevent a complete *volte-face* by the Revenue, with the result that the taxpayer is mulcted in additional taxes long after he is reasonably entitled to assume that after full consideration a correct decision had been given. Retrospective legislation is rightly condemned. The right to retrospective administrative action by the Inland Revenue, in the absence of fraud or negligence by the taxpayer, is equally unreasonable. It is suggested that a reasonable solution would be to limit the right of the Revenue to make additional assessments to the correction of errors of fact, and further, that no such errors could be corrected if more than three years had expired since the original assessment was made.

One of the holiest of the sacred cows in taxation is the meticulous chasing of pennies. It is instructive to compare the different attitude pursued in the United States where even the biggest cases amongst corporations are not made the basis for exhaustive annual check. The attitude taken by the Revenue authorities in this country is in strong contrast, and a detailed check is made by H.M. Inspectors of Taxes of practically every set of accounts submitted to the Revenue. We should be fair about this. The Board of Inland Revenue have tried since early in the Second World War to get the Inspectors to limit their examinations to sample checks: with what success, the average practitioner can judge. It is futile to expect anything else. Having trained a body of men like H.M. Inspectors of Taxes to examine accounts with the curiosity of a terrier, the Board of Inland Revenue should not expect them to abandon their traditional attitude.

One wonders whether the most efficient system of Pay-as-you-earn has not become a subject of adoration unrelated to the primary object of the

Revenue departments – to collect tax. It would be reasonable to expect that the enormous amount of work undertaken by the employer would mitigate the burden of work in the Inland Revenue. Not a bit of it. The Revenue officials engaged in oiling the P.A.Y.E. machine are far more numerous than those employed in assessing trading profits, which bring in a far heavier yield of tax. There is grave danger of P.A.Y.E. becoming a golden calf in its own right merely as a record of the movements of the employees of industry.

If there are degrees of sanctity in the sacred herd, then surely the palm goes to what is euphemistically called 'progressive' taxation? This pleasant-sounding phrase covers the practice, which has steadily developed in this country since the beginning of the century, of taking from those with larger incomes a progressively larger slice of each pound earned. It is commonly assumed that there is some kind of moral justification for this confiscatory procedure. There may have been, at one time, when the object was to assist the economically handicapped citizens of the State. At present, however, it has passed the stage when State dentures are provided for the economically feckless to gnash their teeth at their weekly failures on the penny pools. The last word on so-called 'progressive' taxation has been spoken by Lady Rhys-Williams in her *Taxation and Incentive*:²

'It requires national emergency to sanction it, and it cannot, without disaster, form part of a permanent system of taxation. The robbery of one group of citizens by another, even when the State, democratically controlled by the first group, acts as its agent in carrying out the theft, remains theft.'

The sacred cows of taxation are too numerous to describe in detail. They clutter the subject with superstition. Some of them should be destroyed out of hand: the traditional Revenue gambits in what are called *Law Shipping* situations, most of them born of a mythological interpretation of a narrow set of facts in an isolated tax case; and the stupid narrowness of Schedule E deductions – who wouldn't trade all the old decisions on Rule 9 for a horse?

Is it too much to hope that the Royal Commission will bring a measure of realism into the income-tax code, and free the community and the profession from the schedular shibboleths which have introduced such a large measure of lunacy into the study of

¹ *The Accountant*, September 5th, 1953, page 289.

² Wm. Hodge and Co. Ltd., *The Accountant*, May 30th 1953.

STANDARD COSTING IN A SOUTH AFRICAN METAL WINDOW FACTORY

by FREDERICK G. BEARD, B.COM., F.A.C.C.A., F.C.W.A., F.C.I.S., of Durban

AT first glance the installation of standard costing (with its inevitable corollary, budgetary control) in a metal window factory fabricating, according to the catalogue, nearly 1,000 different types of windows, appears well-nigh impossible, necessitating, as it appears to do, thousands of operations each of which must be time-studied. Moreover, forecasting the quantities and types of windows which will be sold over the budget period—when every order calls for different types and sizes of windows according to the whims and fancies of the architects and owners—appears to scotch any idea of a sales budget with the budget to take care of the estimates.

However, the fabricator of the window type of window into some twenty operations and these operations are subdivided into groups of the windows fabricated. By accounting for every operation was then expressed in standard minutes and the amount of an operator in a minute of an extended pace with due allowance for fatigue.)

Brief Explanation of the System

The preparation of the production budget then became a simple matter. Calculating at maximum capacity (the factory was able to sell all the windows it could fabricate), the output for the budget period was measured against the clock, i.e. elapsed working time (less, of course, lunch breaks and tea periods) multiplied by the estimated number of operators and expressed in standard minutes.

From the labour budget, the total direct wages were extracted and divided by the standard minutes expected to be produced over one hundred—giving the standard labour cost per 100 standard minutes.

Similarly, from the expense budget, the total fixed expenses and the total variable expenses were divided by the total standard minutes over 100—giving the standard fixed overhead cost and the standard variable overhead cost per 100 standard

minutes. The fixed element in the semi-variables was included in the fixed expenses, the balance being added to the variables.

The standard material cost was obtained by weighing each type of window (checking these weights by calculating the footage used at so many pounds per foot) and then converting the weight into value at the standard material cost. The cost of fittings at standard prices was also calculated.

All this enabled two sets of cards to be prepared. The first set comprised a card for each type of window on which was listed the operations in order of fabrication (some of the windows had more operations than others). The size group of the window having been determined, the standard minutes for the size group were then entered against each operation, the total representing the standard minutes for that particular window. In order to ascertain the daily production in standard minutes, therefore, a daily count of the various types of windows fabricated that day is all that is necessary, being converted into standard minutes by multiplying by the standard minutes as shown on the cards. As the factory manager prepares the daily return of production and efficiency these cards are kept on file in his office.

The second set of cards shows the standard cost of each type of window and these cards, of course, are kept in the general manager's office. Here is the standard cost card for an NC3 window:

STANDARD COST CARD—TYPE NC3

Standard minutes—45					Weight—38 lb
Labour cost	..	..	..	..	54
Fixed overhead cost	..	..	..	..	81
Variable overhead cost	..	..	..	..	95
Material cost	..	..	..	..	300
Fittings	..	..	..	..	90
					620
					51/8.

To the argument that these cost cards show the standard cost of each type of window, i.e. what they should cost and not what they actually cost, it is pointed out that the current cost of any

window can be calculated in a few seconds by increasing the standard labour and overhead costs according to the latest actual costs per 100 standard minutes. Any changes in the cost of materials and/or fittings, of course, must also be taken into account.

These cost cards serve a dual purpose. Firstly, comparison with the catalogue prices reflects the margin of profit on every type of window and the sales manager has formulated his sales policy accordingly, i.e. by 'pushing' the more profitable types and endeavouring to eschew orders for the marginal types. Secondly, showing the fixed and variable overheads separately will enable marginal costing to be resorted to whenever necessary. Locally-manufactured steel window sections – for the first time for many years – are now in free supply, whilst the building 'boom' appears to be slowing down, so that it might be necessary in the foreseeable future to tender for large Government and other contracts at sub-economic prices (labour, material and variable overhead plus only a portion of fixed overhead) in order to maintain full production. It will be noted that the margin by which the fixed overhead can be cut on each type of window is readily ascertainable.

From the daily returns of production and efficiency and from the integrated accounts set up in place of the somewhat antediluvian 'financial' accounts which previously existed, a monthly schedule of production efficiency and variances is prepared. One of these schedules is reproduced below and the wealth of information and degree of control are clearly shown.

Incentive Bonus Scheme

As this system of standard costing lends itself to simple and accurate work measurement in respect of each operator, an incentive bonus scheme is also in operation. According to the wage agreement applicable to this factory, a target must be set which, if achieved, entitles the operator to 15 per cent of his basic wage.

Management have accordingly set the target at 75 per cent operator efficiency, with an additional bonus of 1 per cent for every increase to 100 per cent. Thus, if an operator achieves 85 per cent efficiency he draws a bonus equal to 25 per cent of his basic wage. It will be noted that bonuses are calculated on operator efficiency. Operator efficiency measures the activity of workers while able to work: it excludes idle time over which the workers have no control, e.g. waiting for materials. Production efficiency, on which the variances are calculated, is based on elapsed time, less lunch and tea breaks only. The greater the difference between operator efficiency and production efficiency, of course, the greater the reflection on management.

Conclusion

Although the explanation of this system must perforce be brief, it is hoped, nevertheless, that the inherent simplicity and complete adaptability of standard costing is clearly shown, thus 'debunking' its alleged complexities and exploding the fallacy (far too often encountered in South Africa and no doubt also encountered in the United Kingdom) that standard costing 'won't work in my factory'.

STATEMENT OF PRODUCTION EFFICIENCY AND VARIANCES FOR SEPTEMBER 1953
(Twenty-two Working Days of Nine Hours Net)

				COST PER 100 STANDARD MINUTES			
				Standard		Actual	
				s	d	s	d
				10	0	12	9
				15	0	19	3
				17	6	18	3
				42	6	50	3
PRODUCTION EFFICIENCY							
	Elapsed time	Standard minutes produced	Efficiency (S.M.P. × 100 E.T.)				
As per daily returns	1,792,000	1,433,600	80 per cent				
VARIANCES							
	Standard cost	Actual cost	Difference	Wage rate	Labour efficiency		
Labour ..	7,168	9,139	+ 1,971	179	1,792		
Materials ..	20,000	21,000	+ 1,000	Price 600	Usage 400		
Overhead: fixed	10,752	13,798	+ 3,046	Volume 2,688	Controllable 358		
variable	12,544	13,082	+ 538	—	538		

NOTES

(1) The volume and labour efficiency variances are self-explanatory, i.e. they show the loss sustained by working only to 80 per cent efficiency.

(2) The production efficiency and overall operator efficiency are compared and the idle time analysed and explained.

$$\text{Overall operator efficiency} = \frac{\text{S.M.P.} \times 100}{\text{E.T. less idle time}}$$

(3) The other variances are analysed and corrective action taken necessary.

AUSTRALASIAN COMMENTARY—XIV

Professional Topics in Australia and New Zealand

by S. R. BROWN, LL.B., F.C.A.(Aust.)

The writer of this series of articles is the senior partner in a firm of chartered accountants in Sydney, Australia. He is the author of several text-books on accounting and company law.

Congress

IN mid-July last, ninety accountants gathered at the Blue Mountains Congress, organized by the New South Wales Division of the Australian Chartered Accountants' Research Society, to consider two technical papers and to participate in an open forum. The latter event took the form of a spirited discussion of questions relating to the improvement of Institute affairs and professional practice. Of the many points which emerged, one which is likely to have some effect on the future development of the profession is that dealing with the recruiting of juniors.

Due to the fact that clerks may not be articulated at less than the award rates for clerical labour, the cost of junior labour is high in States like New South Wales. For instance, the present award rates for a junior of 17 years of age is £7 2s 2d, and of 18 years is £8 10s 5d. The general opinion seems to be that these sorts of costs are out of tune with fees obtainable and are not commensurate with work performed. Within the knowledge of the writer, many medium- to large-sized firms in Sydney have cut the number of juniors they carry. This state of affairs led numerous members at the Congress to ask: 'What will be the state of the practitioner's office in five to ten years' time?' It also led to exhortations that juniors on staff be trained properly—the danger of overloaded seniors and partners neglecting their training responsibilities is a real one in these conditions.

Dual Exams

In New South Wales, fuel is added to the fire by the fact that a staff member who passes the examinations of the Chartered Institute cannot set up in public practice and perform audits of companies unless he completes also the examinations of the Public Accountants Registration Board. A goodly percentage of those who enter the Chartered profession are of a type who have no public practice in view. The result is an attempt to sit for two sets of exams which differ in content, date of convening and, possibly, standard. Practitioners make no secret of the fact that this creates difficulties.

Partial alleviation has been achieved by the Chartered Institute allowing exemption from its Intermediate exams to those who have passed all of the Board exams, but this has not been a completely effective stop to the tendency to drift from Institute to Board.

Inflation and Deflation

The first of the papers delivered at the above-mentioned Congress dealt with the subject of accounting in periods of rapid inflation and deflation. Presented by Mr E. S. Owens, F.C.A.(Aust.), it contained the suggestion that the index number method of adjusting figures is likely to be the most acceptable. Ensuing discussion showed that nearly all agreed that there was at present no suitable index. An influential section of the group was firmly of the opinion that no adjustments should be made to figures in the accounts, although supplementary adjusted statements could, if preparation were possible, be presented with the conventional financial statements.

Internal Control

The second paper represented a codification by Mr A. B. Campbell, B.A., A.C.A.(Aust.), of the preliminary findings of a six-man research group which has been making a study and survey of internal control as applicable to Australian conditions. An interesting revelation was the fact that of about forty persons questioned as to what they understood internal control to be, not one gave a reply approaching in scope the definition adopted by the Committee on Auditing Procedure of the American Institute of Accountants in its Official Report of 1948.

Among the items with which the group required some help from those present at the Congress was the case-study of fraud. A suggestion was made that members could submit regular returns (yearly or as the case may be) of frauds which have come under their notice; who discovered them (client's staff or auditors), magnitude, length of time perpetrated, and so on. This would, when published in statistical form, yield valuable information as to the most common

avenues for fraud and enable professional work to be more knowledgeably planned.

The Budget

One of the 1953 Federal Budget proposals which will ease the pressure on many accountants is the raising of the annual exemption from pay-roll tax from £1,040 to £4,160. The effect of this concession will be that 50,000 employers of the 90,000 who now pay the tax will no longer be liable to do so. Monthly pay-roll tax returns for those freed will thus no longer be required.

Other points of note are the proposed abolition of entertainments tax, reduction in public company tax by 1s in the £ on the first £5,000 of taxable income and 2s in the £ on the balance, overall reduction of 1s in the £ on taxable incomes of private companies, average reduction of 12½ per cent on tax payable by individuals and differential rates of sales tax reduced to two in number, viz. 16⅔ per cent and 12½ per cent. The majority of business men who have expressed an opinion seem quite pleased with the budget.

Audit Procedures

In a recent review of auditing procedures, Mr R. A. Irish, F.C.A.(Aust.), expressed the view that too much emphasis was placed on the cash audit and too little on other phases. Questions he asked were: How often is an error discovered in the cash records? Are the records of stock kept as exactly? What advantage flows from checking duplicate receipts to a cash-book when there is proper internal control over remittances, deposits, cash-book entries and the issue of receipts?

In respect of purchases and sales, Mr Irish thought that the important point was to go behind the invoices to delivery notes, original orders, stock records, and so on. Whereas the usual thing seemed to be to test entries as such, the better approach is to test the control system. (*The Chartered Accountant in Australia*, July.)

Terminology

The accounting research committee (N.S.W. Division) of the Australian Society of Accountants has presented its first interim report on accounting terminology. After explaining its approach to the rationalizing of terminology by reference to the accounting entity, the Committee submitted definitions of twelve terms in the asset group. Of these, the use of the following is not recommended: deferred, fictitious, floating and wasting assets, and deferred charges. This leaves: circulating,

current, fixed, intangible, liquid and quick assets available for use, besides, of course, the term 'assets' itself. (*The Australian Accountant*, August.)

Annual Reports

The July issue of *The Secretary* (Australian and New Zealand Edition) carries a review by Mr E. S. Owens, F.C.A.(Aust.), of the Australian Institute of Management's Annual Report Award of 1952. An item of particular interest is the fact that twenty-three companies disclosed their turnover in the revenue account, an increase on last year's figure. Vertical balance sheets were in the majority and only two companies did not give comparisons with figures of the previous year. Mr Owens thought that the marked improvement in the standard of company annual reporting in recent years was due to a study of American methods and to the realization that in the past we have had too narrow a view on disclosure and too little appreciation that the annual report can be made into a first-rate public relations document.

Capital Erosion

In an address before a congress recently held in Queensland, Mr A. R. Mutton, B.Ec., F.C.A.(Aust.), stated that although the evidence was not strong enough to support a prophecy that historical cost accounting is likely to be replaced by a radically different form, it yet showed that conventional accountancy principles are no longer held to be sacrosanct either by governments, business men, economists or even ourselves. Part of the evidence referred to consisted of an estimate (from a casual examination) that about 70 per cent of public companies in Australia wrote off depreciation in 1951 in excess of historical cost. In addition, the failure of many companies to present consolidated accounts and to reveal depreciation and tax provisions led one to infer that these companies prefer to understate their historical costs. (*The Chartered Accountant in Australia*, June.)

Double Tax Conventions

Long-awaited double tax conventions between Australia and the U.S.A. have now been signed. Executed at Washington on May 14th, they deal with the avoidance of double taxation with respect to taxes on income, gifts and deceased estates. The Treasurer has stated that if convention with respect to income-tax is ratified before the end of 1953, it would apply in Australia for the year of income beginning July 1st, 1953, and in the U.S.A. from January 1st, 1953.

WEEKLY NOTES

Estate Duty Concession Withdrawn

The Defence (Finance) Regulations, 1939, by Regulation 1, gave the Treasury power to acquire compulsorily, money balances and securities having a marketable value outside the United Kingdom. The Treasury was of course to pay for them. This compulsory acquisition might have the effect of increasing estate duty on the owner of the foreign assets. If he died domiciled abroad, no duty would be payable on his foreign property. On the other hand, the proceeds of the compulsory acquisition, and the securities representing the same will normally be in the United Kingdom and therefore dutiable. To avoid this hardship, the Inland Revenue announced a concession under which estate duty arising in those circumstances would not be claimed. The concession was reproduced in *The Accountant* on February 2nd, 1952, and is also to be found in a White Paper, Cmd. 6559 and in the Appendix to the Inland Revenue Report for the year ended March 31st, 1951. It was expressed to operate until six months had elapsed after 'the expiry of the Regulations'.

Some of the Regulations, including Regulation 1, were revoked as from August 5th, 1953, by an Order in Council (The Defence Regulations (No. 6) Order, 1953, S.I. 1953, No. 1,207). That this revocation is regarded by the Revenue as an expiry of the Regulations as a whole is now made clear by an announcement that the concession referred to will be withdrawn in relation to deaths occurring after February 5th, 1954, i.e. six months after the revocation of Regulation 1. Of course, this change affects only those taxpayers who die domiciled abroad.

The Engineering Industries' Association and Estate Duty

The Engineering Industries' Association has responded to the official invitation to submit representations about estate duty, particularly about the notorious Section 55 of the Finance Act, 1940. An eight-page booklet of representations was sent to the Inland Revenue on October 1st, 1953. The Association very properly points out that Section 55 was passed at a time when the whole nation was in dire danger, and the precise provisions did not receive the careful scrutiny which they might otherwise have had. Moreover, the rates of duty have been increased. It is suggested that even though Section 55 be retained, the primary consideration in valuing shares subject to it should be the probable notional dividend yield, i.e. the valuation of the company's assets should have regard to what the company is likely to be able to pay in dividend, after setting aside reasonable reserves. The booklet also makes strong representations for a general reduction in estate duty, having regard particularly to the adverse effects of the

present rates on the development of small companies and family businesses. Failing actual reductions, the present taxing of wide marginal amounts at an effective rate of 100 per cent should be discontinued and replaced by a more equitable scheme of marginal rates.

Investigation of Ownership of Shares

The Companies Act, 1948, Section 172, empowers the Board of Trade to appoint inspectors to investigate the membership of a company for the purpose of determining the true ownership of its share capital. The section was an innovation made with regard to the widespread use of nominee shares. As far as we know it had not been invoked until Friday of last week when the directors of Savoy Hotel Ltd announced that the Board of Trade had agreed to investigate the ownership of preference and ordinary stock of the company which had recently changed hands.

More about Losing a Client

In a leading article in our issue of October 24th on the subject of losing a client, we made the following statement (page 462):

'For example, a private company which, for good reason, desires to change its auditor, may find that it can do so only at the next annual general meeting, although no audit work has yet been done since the last meeting. It seems desirable that there should be a resignation and the filling of a casual vacancy rather than the creation of much ill-feeling by an attempt to stand on technicalities.'

A correspondent considers that our view is 'highly questionable'. He says that he would regard a 'resignation' at the beginning or in the middle of an auditor's term of office as an attempt to contract out of the provisions of an Act of Parliament (Section 159, Companies Act, 1948) and therefore irregular. He adds that the directors would have no power to vary the members' appointment and the auditor would fail to fulfil his duty to the members, even if there were a change in membership (such as a new controlling shareholder). Moreover, he does not think that a 'resignation' would constitute a casual vacancy envisaged by the Act.

Our correspondent's remarks aptly illustrate what we had in mind when we referred to 'the creation of much ill-feeling by an attempt to stand on technicalities'. We agree that the Companies Act, 1948, contains no specific provisions authorizing an auditor to resign. But the auditor is appointed by the members and his duty is to report to them. If the auditor and the members agreed to part company, who is going to interfere? It is clear from the context of the remarks in our leading article that we were referring to circumstances where it is clearly the wish of the members (not merely the directors as our corre-

spondent has wrongly assumed) that the auditor should be changed. It seems to us that in such circumstances a common-sense attitude will save everyone a lot of unnecessary trouble.

If an accountant signifies his willingness to act as auditor and is in fact so appointed by a company, there is a binding agreement between them, and the auditor would be in breach of that contract if he resigned his appointment before completion of the term for which it was made. If, however, the members of the company wish to change the auditor and if the auditor is willing to oblige by resigning, we do not think such a resignation constitutes a breach of contract. It must surely be a variation or cancellation of the original contract, with the consent of both parties to the contract. We can find nothing in the Companies Act, 1948, to prohibit such a course.

If an auditor does resign by agreement with the members of the company, we can see no reason why this should not be regarded as a casual vacancy; but in the circumstances envisaged in our leading article we cannot see why the technical question of what is or is not a 'casual vacancy' need arise. Who would have any cause to complain so long as the vacancy is filled to the satisfaction of the members of the company?

We cannot emphasize too strongly that these further comments must be read in the context of the original article. They relate expressly to circumstances

where the desire to change is founded on good reason and not (to quote our article) 'a necessity born of ulterior motives'.

The Incomprehensible Inland Revenue

The Inland Revenue practice of accepting pecuniary settlements in respect of criminal liability arising from false returns was the subject of comment by Mr Justice Stable at Leeds Assizes this month. James Duncan Hill, aged 46, cashier-accountant, of Laund Road, Huddersfield, had pleaded guilty to five charges of making false returns to the Inland Revenue by omitting bonuses paid to him by his employers. Having refunded the tax lost (£228 10s), he was fined £50, payable within six months, the alternative being one week's imprisonment. Commenting on the prosecution, Mr Justice Stable said (according to *The Times* of November 13th, 1953):

'I never understand the methods of the Inland Revenue. In many cases where the grossest frauds have been passed over no criminal proceedings have been brought because the taxpayer has been in a position to pay a large sum of money and is able to buy it off. This is a most trivial case, but this man cannot buy it off and has been prosecuted. I do not like it. If all the wrongdoers were prosecuted the matter would not be open to comment. This man made an honest return of his income, but was tempted to omit a bonus.'

FINANCE AND COMMERCE

With the United Steel Companies issue finally out of the way, normal new issue activity is developing. Trustee borrowing has been resumed with an Australian cash and conversion offer and the past week has seen a number of industrial share placings. Further placings and public offers are planned. The stock-market, however, has seen some reaction in values and business after the expansion which followed the lowering of the Bank rate.

Three Suggestions

Mr John Waddell, chairman of Amalgamated Collieries Ltd, whose accounts we reprint this week, poses three lines on which the company's capital position, due to the loss on its nationalized coal assets, might be dealt with. The loss, representing the difference between book values and compensation receivable (still not exactly known), is partly offset by an increase in the value of the subsidiary, British Anthracite, but 'it may well be that there is a capital deficit of between one and two million pounds'.

Mr Waddell seeks to establish the attitude of preference and equity holders, one to another. On this attitude, he feels, will depend which of the three courses they adopt.

Introducing his first line, he points out that the capital deficit can be left in the balance sheet *ad infinitum* and available profits distributed. This

would mean that the preference would have an annual non-cumulative participation of a further 4 per cent, at which stage the ordinary stockholders receive 1½ per cent.

On the basis of the good level of 1952 profits and having regard to the heavy incidence of distributed profits tax, this, he says, is just about the full possibility if nearly all the balance of taxed profits is paid away. By this method preference holders would have a substantial benefit; the equity holders would get very little and still not have their capital deficit made good.

Compromise

The second alternative is the direct opposite. Equity holders, says Mr Waddell, might feel that their proportion of any such distribution would be so small that it might be better to have nothing distributed, but to plough back all available profits to make good their capital deficit which would mean that their stock would be fully backed by assets, and after a rather long period, might possibly resume its par value.

Mr Waddell feels that there is some justification for such a policy because it would conserve entirely for the benefit of the ordinary stockholders what would have been paid out in the preference participation plus distributed profits tax, as well as any ordinary dividends contemplated. To achieve this,

the ordinary holders would merely have to vote against any payment of participation dividend.

His third alternative he regards as a compromise whereby the capital might be brought more into line with the value of the assets, 'a good feature', and where by rearrangement of the rights between participating and equity stocks, it might enable both parties to receive some extra dividend at an early date.

Thus the preference might actually collect some of their participation which otherwise might be blocked and the ordinary might collect in cash some of the profits which they would otherwise have to plough back for an indefinite period.

Mr Waddell expressed the feeling of the board that in view of the possible conflict of interests, the third alternative is the most desirable course. His opinion was confirmed by the majority of those members who attended the meeting.

Reconstruction Delayed

Mr T. W. Vernon, chairman of Sterling Industries Ltd, advises against a capital reconstruction for the

time being. This company has £350,000 of preference and £750,000 of ordinary capital. Capital reserves and surplus total £1,356,766. But from this is deducted £1,015,534 for 'ascertained losses on investments etc. in former subsidiary companies'.

The company's professional advisers expressed the view last year that with one exception, the subsidiaries had not matured sufficiently to enable a view to be taken of their probable profit earnings. Their view was that any recommendations based on premature estimates might prove to be unfair as between the two classes of shareholders.

The opinion was a wise one, says Mr Vernon, and it is still the position that no reliable calculation of probable earning power can yet be made.

Excessive Profits

The excess profits levy has led to some extraordinary situations but none hardly so fantastic as that of Richard Crittall & Co Ltd, heating and ventilating engineers. This company, as readers of this column will remember, went through a very unfortunate

AMALGAMATED ANTHRACITE COLLIERIES LIMITED

Balance Sheet, December 31st, 1952

1951 £	£	£	1951 £
Capital and Reserves		Current Assets	
Capital	Authorized	Stock Issued and fully paid	
2,386,850	3½ per cent Cumulative Participating Preference Stock, or Shares of £1 each	2,500,000	2,386,850
1,799,920	Ordinary Stock, or Shares, of 4s each	7,000,000	1,799,920
4,186,770		<u>£9,500,000</u>	<u>4,186,770</u>
	Note. — £93,120 4½ per cent Funding Certificates are outstanding after providing current year's redemption. These are redeemable out of profits by purchase or by annual drawings.		
	Revenue Reserve		
52,908	Profit and Loss Account	44,697	
<u>£4,239,678</u>		<u>4,231,467</u>	
	Amount due to the British Anthracite Company Limited Group of Companies, less Dividend	813,935	
<u>£529,028</u>			
Current Liabilities			
Advances from Bankers, secured by the deposit of £700,000 Debenture Stock available for issue	£		
495,012	Income-tax to 1952-53 and Profits Tax Creditors and Accrued Liabilities	96,961	
87,088	Redemption of and Interest on Funding Certificates	84,901	
5,945	Dividend on Preference Stock (net)	36,026	
36,026	Amount Due to a Subsidiary Company, Gresham Mutual Indemnity Limited	21,929	
21,929		499,212	
869,594	Note. — The accounts of this non-trading subsidiary company have not been incorporated in the group accounts as the directors are of the opinion that the result of incorporating such accounts would be misleading.		
	Provisions for Adjustments under the Coal Industry Nationalization Act, 1946	414,646	
<u>473,453</u>			
<u>£1,989,047</u>		<u>1,153,675</u>	
<u>£6,757,753</u>		<u>£6,199,077</u>	

experience a few years ago. Substantial losses were incurred and under a 1949 scheme, the paid-up capital was cut from £550,000 to £50,000.

Under new direction and with increasing building activity, the business is now going ahead, but in doing so comes up against excess profits levy.

Shareholders may be surprised to learn in view of the substantial carry-forward of income-tax losses, says Mr Geoffrey C. R. Eley, the chairman, that it has been found necessary to set aside such a comparatively large sum for taxation. The explanation, he says, lies in the need to make a full year's provision for excess profits levy on this occasion and the fact that certain subsidiaries, not carrying forward

tax losses are consequently liable for income-tax on their profits.

After coming through such an experience as led to the capital reconstruction, it is rather hard to find that profits are 'excessive' within the meaning of the Act.

Money Market

Treasury bill applications totalled £372,910,000 on November 13th and the market obtained 46 per cent of requirements at a maintained bid of £99 9s 6d. The average rate was £2 1s 11.48d per cent and the whole of the £230 million of bills offered was allotted. This week the offer is maintained at £230 million against corresponding maturities of £270 million.

AMALGAMATED ANTHRACITE COLLIERIES LIMITED Consolidated Profit and Loss Account for the Year ended December 31st, 1952

	£	1952 £	£	1951 £	£
(A) The British Anthracite Company Limited and its Subsidiaries					
Trading Profits			563,463		602,274
Dividends and Interest:					
Trade Investments			7,978		7,745
Profit on sale of Ship (excluding £50,875 (1951, £58,917) transferred to Capital Reserve)			91,870		87,065
			663,311		697,084
Less Auditors' Remuneration		6,504		5,872	
Interest		6,043		2,093	
Provision for Depreciation of Fixed Assets		105,460		94,030	
Amount Written off Trade Investments		50,000		60,000	
Taxation on Profits of the Year:					
Excess Profits Levy	25,000				
Overseas Taxation	3,573			1,665	
Profits Tax	17,712			48,052	
Income-tax	279,630			257,534	
	325,915			307,251	
Less Adjustments in respect of previous Years	4,135			1,096	
		321,780			306,155
			489,787		468,150
			173,524		228,934
Less Proportion of Profits of the Year attributable to Outside Shareholders			13,403		19,645
			160,121		209,289
Less Transfer to Revenue Reserves:					
General Reserve					13,474
			160,121		195,815
(B) Amalgamated Anthracite Collieries Limited					
Registered Office and General Expenses, Salaries and Directors' Fees ..		12,348		13,236	
Auditors' Remuneration		250		500	
Interest Payable less Estimated Interest Receivable under the Coal Industry Acts		12,214		25,615	
		24,812		39,351	
Less Adjustments in respect of previous Years		22,110		1,922	
		2,702		37,429	
Income-tax Recoverable		14,000		20,000	
			11,298 (add)		17,429 (deduct)
Net Profit of Amalgamated Anthracite Collieries Limited after providing for Taxation etc.			171,419		178,386
Less Interest on Funding Certificates		5,561		6,873	
Redemption of Funding Certificates		30,465		29,153	
		36,026		36,026	
Preference Dividend for the Year less Income-tax		43,858		43,858	
			79,884		79,884
			91,535		98,502
Add Balance Brought Forward			52,908		89,845
			144,443		188,347
Deduct Profits Retained by The British Anthracite Company Limited Group of Companies			99,746		135,439
Balance carried forward by Amalgamated Anthracite Collieries Limited			£44,697		£52,908

Notes.

- (1) The aggregate emoluments of the Directors of Amalgamated Anthracite Collieries Limited borne by the Company and its Subsidiaries (including £4,550 (1951, £3,938) for Remuneration as Directors), amounted to £19,132 (1951, £19,254).
- (2) Depreciation has not been provided on certain Fixed Assets already fully depreciated.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Over-deduction of Tax from Ordinary Dividend

SIR, — On April 30th, 1953, a public company dispatched dividends on its ordinary stock by means of the usual dividend warrants and attached vouchers. From the gross amount of the dividend, the company deducted income-tax at the rate of 9s 6d in the £. A notice above the secretary's name on the reverse of the voucher stated:

'In accordance with a resolution passed at the annual general meeting of stockholders, held April 21st, 1953, I send you the annexed cheque being final dividend and bonus for the year 1952 upon the stock held by you, as shown by the statement overleaf.'

On April 15th, 1953, the Chancellor of the Exchequer announced that the standard rate of income-tax for 1953-54 was 9s in the £.

I have drawn the secretary's attention to the fact that it would appear that tax has been over-deducted wrongly, and in reply the registrar has referred to *Spicer & Pegler's Income Tax* on this point by quoting from page 261 (18th edition) at paragraph 13 and Class III on page 263 to 264 (to the first word on that page 'payments' only). He also writes:

'The directors' meeting to declare this dividend was held on March 17th, 1953.'

On referring to several other works (including the above at page 260), it appears that the

'rate at which tax is deductible is the standard rate for the year in which the amount payable becomes due' and

'a dividend is deemed to be due on the date on which it is declared payable (*Hurll v. C.I.R.*).'

I have been unable to trace any authority (other than that anonymously referred to by the company's registrar) to suggest that the directors at a properly constituted board meeting have the power to declare a final dividend. Surely they may only recommend a final dividend; but the dividend itself is declared by the company in general meeting.

If the dividend is declared by the company in general meeting between April 5th and the Budget resolution, the normal rules will apply and in the case of ordinary dividends the over-deduction is correct, and no further adjustment would later be made. I submit, however, that if the dividend is declared after the Budget, the new standard rate is the only one applicable to that dividend, and tax deducted at the old higher rate is wrongly over-deducted. I should like the opinion of other members of the profession on this matter.

Yours faithfully,

Southend on Sea, Essex.

F. I. LOCKE.

[It is certainly unusual for articles of a company to authorize the directors to declare and pay dividends

(other than interim dividends). The notice on the voucher in the present case expressly declares that the payment is in accordance with a resolution passed at the annual general meeting of the stockholders held on April 21st, 1953, from which it would seem likely that the dividend could not have been payable previously to that date. If this inference is correct, the tax appropriate to the dividend is 9s and not 9s 6d (Income Tax Act, 1952, Section 184 (1)). Accordingly the gross amount of the dividend for all tax purposes is the figure arrived at by grossing up the actual net payment at 9s in the £ (Section 493). Whether the shareholders can recover the 6d over-deducted will depend on the terms of the articles and of the resolution referred to.

The decision in *Hurll v. C.I.R.* ([1923] 3 A.T.C. 92; 8 T.C. 292) turned on the construction of Section 5 (3) of the Income Tax Act, 1918, which section was repealed in 1927. The decision established the proposition that a dividend is not 'receivable' before it has been declared. — Editor.]

Taxation of Doctors: Danckwerts Award

SIR, — There appears to be no real problem here (October 24th issue), the querist's difficulty being analogous to that experienced by an accountant who, having agreed assessments for two years on the basis of one year's accounts, is indignantly invited by his client to explain why he should pay twice on one year's profits. The answer must surely always be that for any one year, one year's tax is payable and no more, the *basis* of each assessment being readily explained by reference to the simple rules laid down for the purpose.

The actual figures given cover a period of thirty months to June 30th, 1952, and it is clear that *for that period* the assessments will be:

	£
1949-50	250
1950-51	1,000
1951-52	1,000
1952-53 (proportion to June 30th, 1952)	250
	£2,500

The Danckwerts award was designed to give retrospective effect to an increased scale of remuneration. This increased scale is still being received by the querist's client — it did not *cease* on June 30th, 1952 — so it can be explained to the recipient that the full assessment of £1,000 for 1952-53 includes extra remuneration at the probable rate of not less than £1,000 per annum which has continued to accrue since July 1st, 1952.

I am, Sir,

Yours faithfully,

INTERESTED.

Accounting Research into Retail Trade

SIR, — With reference to the matter raised by your correspondent, Mr D. M. Milstone (October 31st issue), he might be interested to read the *Report on the trading results of merchants engaged in the distribution of heavy building materials*, copies of which I imagine can still be obtained from Building Industry Distributors, 52 High Holborn, WC1.

That report was a research effort and gives some idea of the difficulties encountered by the accountants.

Why so much of the present-day thought and literature on costing etc. relates to the manufacturing trade is not difficult to answer. In the first place manufacture takes place in a comparatively narrow field and the component parts which go to make up manufacturing organization are capable of being defined, whereas in a distributive organization the correct allocation of expense items alone presents a problem which is very difficult to solve and when solved in one trade the method is not necessarily applicable to another.

There is, however, a more important reason why little research has been done in the distributive field. For research to be carried out effectively there must be made available facilities for investigation and the sincere co-operation of the traders in fact-finding. Whilst manufacturers have been made cost-conscious through circumstances, wholesalers and retailers have not had the same incentive. In addition there is a general feeling throughout the distributive trades

that costing systems cannot be applied and, therefore, there is no object in a cost investigation.

Yours faithfully,

Black Notley, Essex.

E. A. BATCHELOR.

Appointment of Auditors

SIR, — Can you, or any of your readers, suggest suitable wording for the rules of an association with regard to the appointment of auditors? I have seen examples where it is the rule that 'two members' be appointed auditors. I have suggested adding the words 'or a qualified accountant' but I am told that this is too wide and indefinite. It is also thought too far-fetched to say 'as defined by the Companies Act, 1948', and the words 'a practising member of the Institute, Society or Association' are too lengthy besides being so much abbreviated as to be indefinite.

The effect of the common 'two members' rule is that an accountant finds himself called upon to act jointly with a person who has no qualifications for carrying out an audit. I suggest that no self-respecting accountant would submit to this. In the equivalent position in the medical or other professions, disciplinary action would be taken against a member so acting. I have even heard of an accountant acting as joint auditor with a professional footballer. The position is usually an honorary one which makes it all the more necessary to see that it enhances the dignity of the profession rather than lowers it.

Yours faithfully,

G.

CURRENT LAW

Passing-off

The plaintiffs in *John Haig & Co Ltd v. Forth Blending Co Ltd and Another*, succeeded in their application for an interdict (injunction) restraining the respondents from supplying or selling whisky, not manufactured by the plaintiffs, in a bottle of distinctive shape used by the plaintiffs.

The Outer House of the Court of Session (Lord Hill Watson) granted the application. Both in England and the United States of America it had been accepted that the shape of the bottle might be important as forming part of the get-up of the commodity for sale. In this case the shape was retained in the memory of the ordinary purchaser and was associated in the mind of the purchasing public with the goods of the plaintiffs and of no other trader. (*Law Journal*, October 2nd, 1953.)

Bequest to Non-Existing Institution

In the Outer House of the Court of Session, in July last, Lord Sorn decided in favour of trustees a claim made by them that a legacy should be administered under a cy-près scheme. A testator had bequeathed a legacy to 'The Society for Old and Infirm Officers of the Mercantile Marine'. There was not and never had been any such society and accordingly the testator's

next-of-kin claimed that the legacy had lapsed.

Lord Sorn held that where the bequest was made to an institution which had never existed, a general charitable intention could be computed to the testator provided that the description of the institution was definite enough to prevent the expression of intention from failing by reason of uncertainty. (*Tod's Trustees v. Sailors' and Firemen's Orphans and Widows Society.*) (*Law Journal*, October 16th, 1953.)

Gift of 'My Bank Deposit at the Midland Bank'

In *Re Heilbronner, deceased; Nathan v. Kenny*, Roxburgh, J., decided in favour of A. K., a suit brought under a disposition bequeathing to her, in recognition of her services as a nurse, 'my bank deposit at the Midland Bank'. At the time of his death there were deposited in the Midland Bank documents of title to national savings certificates and savings bonds, but there was no money in the account because a few days before his death the testator had withdrawn it and given it to the plaintiff, one of his executors, in order that the latter could pay the household accounts.

Roxburgh, J., asserted that it was clear that the testator intended that A. K. should benefit sub-

stantially, but that the construction of the language used by him made it impossible for the whole estate to pass to her. His lordship thought that the reference to the bank deposit was a reference to money and not to securities, and that the fact that the money was held not by the bank but by an executor did not mean that the gift was adeemed. A. K. was therefore entitled to the balance in the hands of the executor. (*Solicitors' Journal*, October 24th, 1953.)

Arbitration: Jurisdiction

In *Christopher Brown Ltd v. Genossenschaft Oesterreichischer Waldbesitzer Holzwirtschaftsbetriebe Registrierte G.m.b.H.* (*Law Times*, October 23rd, 1953), Devlin, J., found for the plaintiffs in an action to enforce an arbitration award. The defendants held that the agreement in which the submission to arbitration was contained did not constitute a binding contract inasmuch as the parties were never *ad idem*, and that, therefore, the submission itself was not binding and valueless. The plaintiffs were awarded £1,650, the award beginning, 'a dispute having arisen between the parties regarding the execution of the contract. . . .'

His lordship held that the plaintiffs must prove that the dispute that arose was within the terms of

the submission and that extrinsic evidence was admissible in order to resolve the ambiguity in the terms of the award arising from the word 'execution'.

Contract: Frustration

The parties in *Ross T. Smyth & Co Ltd (Liverpool) v. W. N. Lindsay Ltd (Leith)* (*Law Times*, October 30th, 1953) were buyers and sellers under contract No. 62 of the London Corn Trade Association, for 500 tons of Sicilian horse beans. The contract provided that if fulfilment was rendered impossible by prohibition of export any unfulfilled part should be cancelled. As from November 1st, 1951, under a regulation of the Italian Ministry of Foreign Commerce, horse beans could only be exported under a specific licence. No beans had been exported by this date and the sellers claimed that the contract was cancelled.

Devlin, J., found to the contrary. The regulation of the Italian Ministry of Foreign Commerce was dated October 20th, 1951, and there was no finding of fact that in the period from that date to November 1st, when the regulation came into force, the sellers had done everything possible to ship the beans. They were, therefore, in default and the buyers were entitled to damages.

REVIEWS

Four Essays in Accounting Theory by Professor F. Sewell Bray, F.C.A., F.S.A.A. (Oxford University Press, London, 15s net)

The four essays deal respectively with accounting theory, company accounting, accounting and statistical relationships and accounting form. There is also an appendix giving a preliminary report prepared by a subcommittee of the Incorporated Accountants' Research Committee early in 1951 on the measurement of productive efficiency.

Each of the essays was originally given as a lecture in academic surroundings; it is natural, therefore, that they should suggest the atmosphere of the cloisters rather than of the city. The practical accountant, once he has accustomed himself to this difference, should derive much benefit from a reading of these scholarly reflections on some of the fundamental problems and postulates of higher accounting.

Management: Its Nature and Significance Third Edition

By E. F. L. Brech, B.A., B.Sc.(Econ.), M.I.I.A.
(Sir Isaac Pitman & Sons Ltd, London. 12s 6d net)
Mr Brech has performed a supremely valuable function in bringing together, critically but clearly, within this comparatively short study much of the management thinking of the last decade or so.

Although he discusses what might be termed the philosophy of management (a most interesting chapter is entitled 'Social purposes and responsibilities') rather than its methods, his book should

appeal to all persons connected with industry: not least to the accountant whose precise role in relation to the management generally must be clearly conceived. The book contains a useful bibliography and should be widely read by those who realize that sound practice is based on sound theory: there are few indeed, in industry or the profession, who would fail to benefit from a perusal of Mr Brech's book.

RECENT PUBLICATIONS

- ACCOUNTS, ACCOUNTANTS AND AUDITORS UNDER THE COMPANIES ACT, compiled by H. Zickel, B.COM. (Cape Town), C.A. (S.A.), A.S.A.A. 123 pp. 9½ × 6. 18s 6d net. Juta & Co Ltd, Cape Town and Johannesburg.
- STATISTICS FOR PROFESSIONAL STUDENTS, Third Edition, by R. L. A. Holmes, B.COM. x+165 pp. 8½ × 5½. 15s net. Sir Isaac Pitman & Sons Ltd, London.
- INCOME TAX LAW AND PRACTICE, Twenty-fifth Edition, by Cecil A. Newport, F.A.C.C.A., and Oliver J. Shaw, Barrister-at-Law. xxxix+400 pp. 8½ × 5½. 27s 6d net. Sweet & Maxwell Ltd, London.
- UNDERHILL'S LAW RELATING TO TRUSTS & TRUSTEES, Tenth Edition, Third Cumulative Supplement, by M. M. Wells, M.A., Barrister-at-Law. xv+25 pp. 9½ × 5½. Main work and supplement, 77s 6d net; supplement alone, 5s net, by post 5s 4d. Butterworth & Co (Publishers) Ltd, London.
- MODERN ELEMENTARY STATISTICS, by John E. Freund, Associate Professor of Mathematics, Alfred University, U.S.A. x+418 pp. 8½ × 5½. 40s net. Sir Isaac Pitman & Sons Ltd, London.
- COVENANTS, SETTLEMENTS AND TAXATION (Oyez Practice Notes, No. 35), by G. Boughen Graham, LL.B., Barrister-at-Law. 70 pp. 8½ × 5½. 10s net. The Solicitors' Law Stationery Society Ltd, London.
- BALANCE CARRIED FORWARD, by R. Robert Coomber. 264 pp. 7 × 4½. Paper cover. 2s 6d net. Penguin Books, Harmondsworth, Middlesex.

RECOMMENDATIONS ON ACCOUNTING PRINCIPLES, NO. XVI ACCOUNTANTS' REPORTS FOR PROSPECTUSES: ADJUSTMENTS AND OTHER MATTERS

The Council of The Institute of Chartered Accountants in England and Wales makes the following further recommendations to members of the Institute on certain aspects of the reports required to be given by accountants for the purpose of inclusion in prospectuses, offers for sale and similar documents. Whilst it is recognized that the form in which such reports are made is (subject to compliance with the Companies Act, 1948, and the regulations of the stock exchanges where applicable) a matter within the discretion of the accountants concerned, it is hoped that these further recommendations will be helpful to members as to what may be regarded as the best practice.

Adjustments Generally

(316) In the preparation of accountants' reports for the purpose of inclusion in prospectuses (which, where appropriate, should be read as including offers for sale and similar documents) it may be necessary to make various adjustments, in addition to giving consideration to the special matters dealt with in Recommendation XIII on *Accountants' reports for prospectuses: fixed assets and depreciation*. The reports required under the Third, Fourth and Fifth Schedules to the Companies Act, 1948, must either indicate by way of note any adjustments as respects the figures of profits or losses or assets and liabilities dealt with by the report which appear necessary to the persons making the report, or must make those adjustments and indicate that adjustments have been made. There is no statutory guidance as to the nature of the adjustments to be made; the accountants making the report must form their own judgment. Where required by Section 41 (1) of the Act, a signed statement, setting out the adjustments and giving the reasons therefore, must be attached to or endorsed on the copy of the prospectus delivered to the registrar of companies.

(317) The accountants' report is necessarily confined to past results and does not purport to deal with future prospects. The intending investor is concerned with the future and he will regard the accountants' report, showing the trend of past results, as being submitted to assist him in forming his own assessment of the prospects. It may therefore be necessary, in order that the trend of past profits may be fairly presented having regard to the purposes of the prospectus, either to make appropriate comments thereon or to adjust the figures.

(318) The circumstances in which adjustments to the figures of profits or losses are usually required fall generally under the following headings:

(a) Where there are material facts which should have been taken into account in preparing the profit and loss accounts for the various years

covered by the report if those facts had been known at the time when the accounts were prepared.

(b) Where there have been material sources of revenue or categories of expenditure which are expected not to recur.

(c) Where during the period covered by the report there has been a material change in the accounting principles applied or where accepted accounting principles have not been applied.

In considering whether an adjustment is required it is essential to bear in mind that the accountants' duty is to report on past profits or losses and not to attempt to forecast results in future conditions.

(319) Adjustments or comments may also be necessary in relation to the statement of assets and liabilities shown in the accountants' report. In particular it will be necessary to consider to what extent it is relevant to include notes which appeared on the last balance sheet and to consider the appropriate treatment of matters such as the market value of investments, the accumulated amount of profits tax non-distribution relief, and reserves for future income-tax. The accountants' report deals with the assets and liabilities as on the last balance sheet date; but the reporting accountants may have knowledge of events subsequent to that date which may have a material bearing on the conclusions which the intending investor may draw from the prospectus and in such cases the accountants will need to consider their report in the light of that knowledge.

Period Covered by the Report

(320) Apart from the question of adjustments, the period to be covered by the report requires consideration, having regard to the importance of presenting a fair view of the trend of results. At present the Stock Exchange, London, requires the report on profits or losses to cover a period of at least ten years instead of the statutory minimum of five years specified in the Companies Act, 1948. A period

of ten years ending in 1954 or earlier will include part of the 1939-45 war period, when conditions were exceptional.

Taxation

(321) The treatment of taxation in the accountants' report raises some difficulties, particularly at the time of the issue of this recommendation, as reports will normally cover periods during which the excess profits tax at varying rates (or the alternative national defence contribution) was in force for part of the time, followed by the profits tax at rapidly changing rates with its complication of non-distribution relief and, for 1952 and 1953, the excess profits levy. Until recently the most usual method of treating taxation has been to use three columns showing:

- (i) profits before charging United Kingdom taxation;
- (ii) excess profits tax (or national defence contribution) and profits tax;
- (iii) profits before deducting income-tax (column (i) less column (ii));

but in recent years some accountants have omitted column (iii). More recently, particularly since the Finance Act, 1952, introduced the further complications of the excess profits levy, some accountants have shown only column (i).

(322) For prospectus purposes accountants are required to report 'upon' or 'with respect to' the profits and are authorized to make such adjustments as appear to them to be necessary. The Council therefore takes the view that the accountants are free to deal with excess profits tax, national defence contribution, profits tax and excess profits levy in whatever manner they think appropriate to the case and that in the absence of exceptional circumstances it is sufficient to show in a single column the profits before charging United Kingdom taxation, notwithstanding legal cases in which the Courts may have interpreted the word 'profits' in other contexts. It is, however, necessary that the report shall fairly indicate the basis on which the profits are stated and shall be in such a form that a person reading the prospectus can ascertain the trend of profits during the period covered by the report, so that he can consider the past results in forming his own view of the profits which may become available for interest or dividend in future years.

(323) The excess profits tax was charged under legislation which is no longer in operation and which differed greatly from the new excess profits levy; and the profits tax borne in past years may bear no relation to the current position regarding 'distributions' or to the current rates of profits tax. A report which shows profits before charging United Kingdom taxation will therefore normally be more informative and less likely to be misunderstood than one which states for each year the amounts of excess profits tax or national defence contribution and of profits

tax. In each case, however, it will be for the accountants to decide on the appropriate treatment of taxation having regard to all the circumstances. It will also be necessary for the accountants to consider whether there are material amounts of expenditure for which no allowance is obtained for taxation purposes and which, therefore, absorb earnings of the relative gross amount.

(324) The question of profits tax non-distribution relief has been considered in detail in the Council's *Notes on the Treatment of Profits Tax in Accounts*. The conclusions there reached are as follows, and the Council takes the same view in relation to the accountant's report dealing with the assets and liabilities at the last date to which the accounts of the company were made up:

'(a) In normal circumstances any attempt to estimate the amount of the profits tax liability which might be incurred on a hypothetical future distribution cannot produce any result of sufficient accuracy to be of value or significance.

'(b) Even if it were possible to compute a significant figure, it is not normally necessary in law to refer in a balance sheet to the existence of an accumulated amount of non-distribution relief, because the existence of such an amount does not constitute either a liability or a contingent liability at the balance sheet date and any possible liability which may be incurred in the future as a result of future distributions is not an element which in law requires consideration when determining whether a balance sheet gives a true and fair view of the state of affairs of the company as on the balance sheet date.

'(c) Nevertheless the Council considers that it may be helpful to shareholders to remind them that if any of the reserves were distributed a part thereof would normally have to be paid away in profits tax instead of being paid to the shareholders. The Council therefore considers that there is much to commend the practice, now being adopted by some companies, of making the balance sheet as informative as possible by including an appropriate reference to the existence of an accumulated amount of non-distribution relief. It is a matter for consideration, in the circumstances of each case, whether the suggested reference should specify the accumulated amount of non-distribution relief or should be made in general terms only:

(i) If the accumulated amount is stated, care must be taken to ensure that it will not be misleading, having regard to the relationship between that amount and the amount of reserves shown in the balance sheet.

(ii) If the reference is made in general terms only, the following is an example of wording which may be suitable:

"The company has been given profits tax non-distribution relief and accordingly a profits tax charge would normally be incurred in the event of a distribution to shareholders out of reserves, including the balance on profit and loss account."

(If Section 31, Finance Act, 1951, applies, the wording would need variation to cover also a reduction or repayment of capital, or a capitalization of reserves.)

- (d) Apart from the general position dealt with in (a), (b) and (c) above there may be exceptional circumstances, for example, where a liquidation is contemplated, which require special treatment in order to indicate as clearly as possible the significance of the non-distribution relief in the exceptional circumstances.'

Presentation

(325) Persons reading the report will more readily understand the significance of the figures if they are stated as simply as possible with a clear indication of the basis on which they have been computed. An indication of the adjustments which have been made, or of the matters to which it is considered necessary to direct attention, can usually be given conveniently in the form of explanatory notes or narrative following a tabulation of the figures.

Context

(326) The context in which the accountants' report appears may have a material effect on the conclusions which the intending investor will draw from the prospectus as a whole. Under the Companies Act, 1948, a prospectus containing a report by accountants must not be issued unless the accountants have given and not withdrawn their consent to the issue thereof with their report in the form and context in which it is included; and a statement that they have so given and not withdrawn their consent must appear in the prospectus.

Stock Exchange Requirements

(327) In addition to the statutory requirements under the Companies Act, there are also requirements of the stock exchanges. In particular, attention is drawn to the following requirements of the Share and Loan Department of the Stock Exchange, London:

- (a) *Memorandum regarding certificates of profits for purposes of prospectuses, offers for sale and advertised statements.* This memorandum was issued on November 3rd, 1948, and published in *The Accountant* on November 13th, 1948; it was also reproduced at page 60 in the Institute's annual report for 1948. The memorandum relates to the 'written statement signed by the auditors or accountants setting out the adjustments made in the report on the profits and giving the reasons therefor' which is required to be submitted to the Share and Loan Department and to be available for inspection by the public for not less than fourteen days at a

quotation of securities of holding companies the department will require to be satisfied that in arriving at any estimate contained or to be contained in any prospectus, offer for sale or public advertisement of the profits of or any dividends to be paid in respect of the first financial year of the holding company due account has been taken of the fact that "pre-acquisition profits" will not be available for distribution.'

- (c) *Stock-in-trade.* It is the practice of the Share and Loan Department to ask the question: 'Have the reporting accountants satisfied themselves that stock-in-trade and work in progress (if any) have been properly taken and valued throughout the period covered by this report?' A simple affirmative answer to that question would amount to the assumption by the reporting accountants of a wider responsibility than they can normally take, particularly if they have not been the auditors of the company for the whole of the period; but if the reporting accountants have satisfied themselves in regard to the matters dealt with in paragraphs 336 and 337 they should be able to give the requisite confirmation to the Share and Loan Department.

Special Circumstances

(328) In considering the recommendations made below it must be borne in mind that the circumstances of one business may differ greatly from those of another. Moreover there are some circumstances, particularly where the report involves subsidiaries or branches operating in the United Kingdom or overseas, for which it would be inappropriate to attempt to make any recommendations of general application. In all cases it is necessary to take into account the relevant facts before deciding what, if any, adjustments should be made and what matters should be referred to specifically in the accountants' report.

RECOMMENDATIONS

(329) It is therefore recommended that the following principles, which should be read in conjunction with those dealt with in Recommendation XIII *Accountants' reports for prospectuses: fixed assets and depreciation*, should normally be applied by members of the Institute who may be called upon to report for prospectus purposes; **but it must be emphasized that the reporting accountants should bear in mind the purpose for which their report is to be used and exercise their own judgment on whether the observations and adjustments mentioned below would be appropriate in the circumstances of a particular case.**

panied by appropriate definition of the bases on which the figures have been computed. A figure of 'average profits' should not be stated.

Taxation

(331) The report should show for each year the profits (as defined in the report) before charging any United Kingdom taxation on profits. In the absence of exceptional circumstances, the report need not include figures showing excess profits tax, national defence contribution, profits tax, or excess profits levy.

(332) If in any particular case the accountants should consider that there are exceptional circumstances which make it desirable to show the amounts of excess profits tax, national defence contribution, profits tax and excess profits levy, it will be for the accountants to decide whether also to show for each year the profits after deducting those taxes.

(333) Where there are material items of expenditure which are chargeable in arriving at profits but are not allowable for taxation purposes, the report should indicate the amount of such expenditure for the last year covered by the report or for such other period as may be appropriate; and should also indicate that the sum required to cover such expenditure is the gross amount which after deduction of taxation will leave a net amount equal to the expenditure which is not allowed. (In relation to depreciation of fixed assets this matter is referred to more specifically in Recommendation XIII.)

Adjustments Generally

(334) The reporting accountants should make such adjustments to the profits or losses as shown by the accountants as they consider appropriate and the report should state that this has been done. If the amount involved in any adjustment is of special importance in relation to the results disclosed, the nature of the adjustment should be stated. The accountants should consider whether the amount involved in any such adjustment should also be stated.

Adjustments Based on New Information

(335) In some cases it may be necessary to consider whether adjustments should be made where there are facts which should have been taken into account in preparing the profit and loss accounts for the various years covered by the report if those facts had been known at the time when the accounts were prepared. These adjustments may often consist of a reallocation, between one year and another, of items such as provisions. Where the correct credit or charge for each year concerned can be ascertained with reasonable accuracy at the date of the report, a reallocation may be appropriate if the amounts are material. In particular:

(a) *Contract prices.* Where material amounts of income were provisional in that they were

derived from Government or other contracts which were subject to cost investigations, or which for other reasons were known at the time of making up the accounts to be liable to subsequent price adjustments, consideration should be given to the question of whether estimates should be adjusted, having regard to the most recent information.

(b) *Deferred repairs.* Owing to conditions arising out of the war many businesses have had to defer necessary expenditure on maintenance of their equipment. Where claims have been made for allowances for deferred repairs for excess profits tax purposes, or provisions therefor have been made in the accounts, these should be regarded as prima facie evidence of the existence of deferred maintenance at the relevant dates. The accountants should, where necessary, make adjustments to correct under- or over-provisions at previous balance sheet dates.

(c) *Bad or doubtful debts.* Adjustments should not normally be made, in the light of subsequent events, to provisions which were considered to be reasonably necessary in respect of bad or doubtful debts having regard to information available when the accounts of any year were made up. Exceptional cases do arise, however, where the amounts involved are very material and in such cases it is necessary to consider whether adjustments should be made.

Stock-in-trade and Work in Progress

(336) The method of valuing stock-in-trade (whether of raw materials, partly finished or finished stocks) should be reviewed and tested in relation to the fair presentation of the trend of profits. Where it is established that the amount included in the accounts at any particular year end should have been materially different a reallocation should be made. Where during the period covered by the report there has been a material change in the basis on which stock-in-trade was valued and it is not practicable to make an adjustment, because the relevant figures are not ascertainable, there should be an appropriate reservation in the report. The taxation implications of any matters arising on stock-in-trade also require consideration.

(337) In some businesses, for example, constructional engineers or public works contractors engaged on large contracts on which work may be in progress over a lengthy period, some profit element may have been included in the valuation of work in progress. In other businesses no profit element may have been included until the period in which the contract has been completed. The basis on which the valuation has been made should be examined from the standpoint of seeing how far the practice which has prevailed is consistent with that in force at the time of the report and of deciding whether

sheet date; and if the amount standing in the books is greater than the market value on that date, the statement of assets and liabilities should include the market value instead of the book amount.

Balance Sheet Notes

(354) The report should incorporate all notes (such as those relating to market values, commitments, rates of exchange or arrears of dividends on cumulative preference shares) which appeared on the last balance sheet, so far as the notes are material to a proper appreciation of the position at the balance sheet date.

Proceeds of the Issue

(355) The accountants' report deals with the assets and liabilities at the last balance sheet date and should therefore not include any addition in respect of the expected proceeds of the issue. This can appropriately be dealt with elsewhere in the prospectus.

Other Considerations

(356) The reporting accountants may have knowledge of material events subsequent to the last balance sheet date, for example, where there has been a material fall in the market value of investments or of stock-in-trade. In such cases and where the reporting accountants have knowledge of any other special circumstances, not dealt with in the foregoing recommendations, which in their opinion have had or may have a material bearing on the statement of assets and liabilities, they should consider whether the facts should be stated in their report or whether this is rendered unnecessary by the manner in which the matter has been dealt with elsewhere in the prospectus.

SUBSIDIARIES, BRANCHES AND OVERSEAS BUSINESSES

(357) Where the report involves subsidiaries or branches or overseas businesses, the circumstances are not usually such as to be suitable for the application of any general recommendations. For example, where subsidiaries or branches have different accounting dates it may not be practicable or appropriate to apportion the figures of profits or losses so as to obtain aggregates for a common period and the appropriate treatment will be a matter for the accountants to decide in the circumstances of each case. Similarly, where a material part of the profits is derived from overseas branches or companies it will be for the accountants to decide whether it is desirable to show separately the amount of such profits, or of the overseas taxation thereon, or of both, and the manner of indicating the position where there are material exchange restrictions on the transfer of overseas profits. All these matters and many others which arise in relation to groups and

overseas businesses require consideration of the circumstances in each case to ensure that the report will not be misunderstood. In all cases where a matter is material the report should state clearly what has been done.

(358) The accounts of some subsidiaries or branches may have been audited by accountants other than those who are reporting for prospectus purposes and it is then necessary for the reporting accountants to consider in the circumstances of each particular case whether they should examine the books and records of the subsidiaries or branches concerned, for which purpose it may be necessary to employ overseas agents. The reporting accountants should consider the desirability of communicating with the other auditors to ascertain whether they wish to draw attention to any matters which may be relevant to the report required for prospectus purposes.

CONSENT TO THE INCLUSION OF THE REPORT

(359) Before consenting (under Section 40, Companies Act, 1948) to the inclusion of their report in the prospectus, the reporting accountants should have regard particularly to:

- (a) The manner in which the directors, in their statement of estimated current and future profits, deal with figures shown in the accountants' report and with matters to which attention has been drawn in that report.

Note.—The Share and Loan Department of the Stock Exchange, London, requires the company to furnish the department with an outline of the facts on which the estimate of profits is founded.

- (b) Material facts of which they have knowledge in relation to the directors' estimates.
- (c) Whether the directors, in any statement of 'value' of ordinary shares in terms of net assets, have paid due regard to the restriction imposed by the existence of an accumulated amount of non-distribution relief.
- (d) The manner in which any special circumstances have been dealt with in the prospectus, where the accountants have decided that no reference thereto is necessary in their report. (See paragraphs 349 and 356.)

(360) In cases where their report deals with assets and liabilities of a company or business acquired or to be acquired, the reporting accountants should ascertain from the directors that the directors' estimates of future profits available for dividend, as shown in the prospectus, have been arrived at after appropriate deductions have been made in respect of pre-acquisition profits which will not be available to the acquiring company for distribution as dividend.

INCORPORATED ACCOUNTANTS' DISTRICT SOCIETY OF SUSSEX ANNUAL DINNER

The annual dinner of the Incorporated Accountants' District Society of Sussex was held in the banqueting room of the Royal Pavilion, Brighton, on Friday, November 13th. The President, Mr E. Webb, F.S.A.A., presided, and among those present were:

Mr Bertram Nelson, J.P., F.S.A.A. (*Vice-President, Society of Incorporated Accountants and Auditors*); Sir Reginald Sharpe, Q.C.; Mr G. P. Morgan-Jones, M.A., F.C.A. (*President, South Eastern Society of Chartered Accountants*); The Hon. Sir Arthur Howard, K.B.E., C.V.O., D.L., J.P.; Mr A. L. Moore (*Education Officer, Office of the High Commissioner for Australia*); Mr C. D. Pilcher, J.P., F.R.I.C.S., F.A.I. (*Chairman, Sussex Branch, Chartered Auctioneers and Estate Agents Institute*); and

Alderman Miss Dorothy Stringer, J.P. (*Deputy Mayor of Brighton*); Messrs C. J. B. Andrews, F.S.A.A. (*President, South of England District Society of Incorporated Accountants and Auditors*); I. A. F. Craig, O.B.E. (*Secretary, Society of Incorporated Accountants and Auditors*); W. T. Curtis-Willson, M.B.E., J.P.; L. V. Donne (*President, Sussex Law Society*); Howard Johnson, M.P.

Messrs R. E. Venn (*Inland Revenue*); N. W. Watkins, F.A.C.C.A. (*President, South Eastern District Society of Association of Certified and Corporate Accountants*); A. E. Webb (*Assistant Editor, 'The Accountant'*); E. Whitley-Jones (*Chairman, Institute of Bankers, Brighton, Hove and District Centre*); Rev. N. Williams, B.Sc.; Mr E. Infield Willis, B.A., J.P.

Proposing the toast of 'The Society of Incorporated Accountants and Auditors and the accountancy profession', Sir Arthur Howard, a former Mayor of Westminster, spoke of the difficulties which had arisen economically as a result of the two world wars which had led to a complete change nationally and internationally.

The business men and the private citizens of responsibility were faced with extraordinary difficulties and Sir Arthur said he did not know how they would have sorted out the problem without the help, so readily given, of the qualified members of the accountancy profession.

Responsibility and Growth of the Profession

A few of the leading members of the profession became well-known national figures, but when one became a member of a distinguished profession it was well to recognize what was owed to the unqualified and not always highly remunerated assistance of the clerks who served it.

Since the Companies Act there was an enormous number of other responsibilities which had come with the growth of their reputation and profession. More and more people wanted to get their boys into the profession and many people would have boys who just had not got the intellectual and other abilities to qualify.

But members of the profession – and the country – would lose in the long run if they lowered the very high standards they had set themselves.

Education

Mr Bertram Nelson, responding, spoke of their great

responsibility in the field of education. The Society had a very worthy record in this field and in Canada and America the profession had derived its present strength from accountants who went there first from this country. He suggested that more might be done in sending men to Commonwealth countries – not to teach, as had primarily been the purpose in the past – but to learn, and to gather experience the results of which would be of the greatest benefit to this country. The Society had an excellent record in the field of education, but he felt the best was yet to be.

In proposing the toast of 'Our Guests', Mr R. W. E. Bunn, F.S.A.A., F.I.M.T.A., former Brighton Borough Treasurer, said the Society had been guilty of a most extraordinary piece of conduct on the part of a body of accountants. The balance sheet of the Society had omitted to make any reference to the abundant goodwill of its numerous friends, a valuable asset as seen from the glittering array of important people who had joined them that evening. (Applause.)

In his reply, Mr Moore said he had heard of the excellent work done by the Society in building up its reputation in educational matters. At this time, he said, Australians were looking forward with tremendous excitement to having the Queen among them. He could only hope that they would honour their promise not to impose too great a strain upon her. Everywhere she and her husband went, he assured them, they would be received with admiration, respect and love.

Mr Moore, commending Mr Nelson's suggestion, spoke of the necessity of closer contact between Britain and Australia in the matter of visits by Britons to Australia. There were hundreds of Australians who came to Britain on short missions. They came to learn from the English, but Australians were concerned that the traffic was not so strong in the reverse direction. He said that it should not be beyond the bounds of the Society to create a Fellowship by which some promising accountants could go to Australia.

High Standards of the Profession

Mr C. D. Pilcher, J.P., F.R.I.C.S., F.A.I., proposed the toast of 'The Incorporated Accountants District Society of Sussex'. He said that a professional society, which contained among its members the most highly conducted men in the land, was charged with the difficult task of making the conventions of society work and he believed they were largely successful in doing so.

In the outside world it was an extraordinarily common thing to see the standards of public conduct and life diminishing as they had in the past fifteen years. While that might be so generally, he did not think it was true of such professional societies as their own.

Replying, Mr Webb, the President said that it owed a great debt of gratitude to the President of the parent body when the District Society was commenced. He also paid tribute to his own officials for the valuable work and support they had given.

NOTES AND NOTICES

The Institute of Chartered Accountants in England and Wales

The following is a list of Associates elected to Fellowship and applicants admitted to membership at the Council meeting held on November 4th, 1953, who completed their Fellowship or Membership before November 17th, 1953.

Associates elected Fellows

- Darke, Kenneth George, M.A.; 1934, A.C.A.; (*Darke, Robson & Co), 80 Bishopsgate, London, EC2.
- Davies, John Hubert Lewis; 1929, A.C.A.; 33 Southampton Street, London, WC2.
- Garton, Richard; 1914, A.C.A.; (Smith & Garton), 23 John William Street, Huddersfield, and at Leeds; also at London (*Smith & Garton).
- Garton, Richard Vivian, T.D.; 1938, A.C.A.; (Smith & Garton), 23 John William Street, Huddersfield; also at London (*Smith & Garton).
- Hardy, John Conyers; 1941, A.C.A.; (H. W. Vallance Lodge & Co), 746 High Road, Tottenham, Middlesex, and at London.
- Ingram, Rowland Peter; 1937, A.C.A.; (Miall, Harper & Co), 9 Idol Lane, Eastcheap, London, EC3.
- Jackson, Maurice Robert; 1948, A.C.A.; 11-13 Baker Street, London, W1.
- Josephs, Michael Stanley; 1946, A.C.A.; (H. W. Fisher & Co), 36 Southampton Street, Strand, London, WC2, and 21 Hillfield Court, Belsize Avenue, London, NW3; also at Edgware and Hendon.
- Monahan, Brian Leslie; 1932, A.C.A.; (*Monahan & Co), 34 Regent Circus, and 11 Victoria Road, Swindon, and at Chippenham.
- Morris, Joseph; 1933, A.C.A.; (J. Morris & Co), 31 Princess Street, Manchester, 2, and at Lytham St Annes and Radcliffe.
- Percival, George William; 1933, A.C.A.; (*Frank Impey & Co), Lombard House, 144 Great Charles Street, Birmingham, 3.
- Ratnett, Walter Ernest; 1934, A.C.A.; (W. E. Ratnett & Co), Commerce House, 6-8 Blagrove Street, Reading, and at Basingstoke.
- Rowland, Thomas Hutchinson; 1929, A.C.A.; (*W. T. Walton, Son & Rowland) and (Basil L. Denton & Co), 5-6 Victoria Buildings, High Street, Stockton-on-Tees, also at London and West Hartlepool (*Basil L. Denton & Co).
- Smith, George Geoffrey, M.A.; 1937, A.C.A.; (Smith & Garton), 23 John William Street, Huddersfield; also at London, (*Smith & Garton).
- Trayler, Norman Frank; 1947, A.C.A.; 8-9 Arcade Chambers, Bognor Regis.
- Wagstaff, Ronald Ernest; 1938, A.C.A.; (Shelvoke, Pickering, Janney & Co), 36 Cannon Street, Birmingham, 2, and at Cannock.
- Walford, Edward Wynn; 1937, A.C.A.; (Frank Brown & Walford), Finkle Chambers, Stockton-on-Tees.

(Not in England or Wales)

- Burgess, Norman Ralph; 1931, A.C.A.; (Hunter, Smith & Earle), 12 Abercromby Street, (P.O. Box 48), Port-of-Spain, Trinidad, and at Caracas.
- Ednie, Ian Scott; 1947, A.C.A.; (*Cooper Brothers & Co), (P.O. Box 158), Queensway House, York Street, Nairobi, and at Dar-es-Salaam, Jinja, Kampala, Mombasa and Moshi.

* placed against a firm name signifies that the firm is not exclusively composed of members of the Institute.

Wilkinson, John Stansbury; 1934, A.C.A.; (*Cooper Brothers & Co), (P.O. Box 158), Queensway House, York Street, Nairobi, and at Dar-es-Salaam, Jinja, Kampala, Mombasa and Moshi.

Admitted as Associate

(Not in Practice)

Burns, Gerard Anthony, with Paul, Dowd & Co, 216 Martins Bank Buildings, Water Street, Liverpool, 2.

Former Members readmitted to Membership

Crawford, Archibald Beatty, c/o Lever Bros. (India) Ltd, Ballard Estate, Bombay, India.

Lawrence, Ernest, 3 Westbourne Avenue, Hull.

Shalson, Hubert Rex, Managing Director, R. E. Shalson Ltd, 175 High Holborn, London, WC1.

Personal

MESSRS NICHOLLS, NORTH & NICHOLLS, Public Accountants, of Christchurch, New Zealand, announce that they have admitted to partnership as from November 1st, 1953, Mr J. M. TOCKER, M.COM., A.P.A.N.Z. The firm will continue to practise under the same name and at the same address as before. For the last seven years Mr TOCKER has been Secretary of the New Zealand Society of Accountants.

MESSRS A. F. FERGUSON & Co, Chartered Accountants, registered accountants of Karachi and Lahore, Pakistan, announce that as from November 1st, 1953, they have admitted into partnership Mr J. P. PATEL, M.A., A.C.A., who was an assistant in the firm.

MR WALTER E. RATNETT, F.C.A., of 31A Winchester Street, Basingstoke, announces that as from November 1st, 1953, he has taken into partnership Mr WILLIAM HENRY VICTOR WITCHER, A.C.A., and Mr EDWARD GEORGE CLEERE, A.C.A. The practice will continue to be carried on under the name of W. E. RATNETT & Co.

MR WALTER E. RATNETT, F.C.A., of Commerce House, 6-8 Blagrove Street, Reading, announces that as from November 1st, 1953, he has taken into partnership Mr WILLIAM HENRY VICTOR WITCHER, A.C.A. The practice will continue to be carried on under the name of W. E. RATNETT & Co.

MESSRS FREEMAN, SHALSON & Co, Chartered Accountants, of Town Hall Chambers, 374 Old Street, London, EC1, announce that as from September 5th, 1953, they have admitted into partnership Mr NORMAN FREEMAN, A.C.A., who has been associated with the firm for a number of years. The style of the firm will remain unchanged.

Professional Note

Sir Harold Gillett, M.C., F.C.A., has been co-opted a director and appointed chairman of the board of John G. Murdoch & Co Ltd.

The Institute of Cost and Works Accountants

A Midland regional conference sponsored by the Birmingham, Coventry, Leicester, and Nottingham and Derby branches of the Institute of Cost and Works Accountants, was held at the Town Hall, Leamington Spa, last Saturday.

'The maintenance of working capital' was discussed by Mr W. A. Harvey, B.COM., C.A., F.C.W.A., the chairman being Mr C. E. Power, F.C.W.A., A.C.A., President of the Leicester branch. The discussion at the conclusion of the paper was opened by Mr F. Addison, F.C.A., F.C.W.A., of Derby.

During the afternoon Mr F. Clive de Paula, T.D., A.C.A., F.C.W.A., presented a paper on 'The control of service department costs'. The chairman at this session was Mr J. A. Cope, F.C.W.A., President of the Birmingham branch, and Mr W. H. Boardman, A.C.W.A., opened the discussion.

Dividend Mandates

Recommendations on the dividend mandates have been made by the Chartered Institute of Secretaries. The first deals with the transfer of banking accounts. The Institute states:

An approach was made to the Committee of London Clearing Bankers, and the opportunity was taken to invite the leading banks not only to standardize their forms of dividend mandate but also to standardize their forms of notice of transfer of account so as to meet special difficulties. As a result, such of the clearing bankers as have not already adopted the form of dividend mandate recommended by the Institute have signified their willingness to adopt that, or similar, wording as soon as their present stocks are exhausted.

The wording recommended by the Institute is:

'I/We hereby request and authorize you to pay all interest and dividends from time to time falling due and becoming payable on any stock or shares now or hereafter registered in my/our name(s) in the books of the company to (*here insert name, full address and national number of the branch of the bank*) or to any branch of that bank to which my/our account may be transferred, whose receipt shall be your sufficient discharge for the same.'

In the case of notices of transfer of banking accounts, the banks do not feel able to adopt the Institute's suggestion that they should contain the words (in reference to the members' holdings in the companies to which they are sent) '... now or hereafter to be registered in the name(s) of ...' in case it should have the effect of altering their customers' original mandates. They have, however, undertaken that, where notices contain the words 'now standing' in this connection, the word 'now' will be deleted and that no specific reference will be made to the amount of the holding.

Referring to the growing practice of printing divi-

dend mandates on the reverse of forms of transfer, the Institute adds:

Many transfer forms now bear printed dividend mandates in wording which is not in accordance with that recommended by the Council and agreed with the clearing banks, and the Council considers it highly desirable that, if the practice should be permitted to grow, the Institute should take immediate steps to ensure at the outset that dividend mandates printed on the reverse of transfer deeds shall follow that wording and thus be acceptable by companies.

The council has requested the co-operation in this connection, through the Secretary of the Share and Loan Department of the Stock Exchange, London, of printers to the London and provincial stock exchanges and, through the Law Stationers Association, to law stationery printers supplying transfer forms.

Revenue Paper: Michaelmas Sittings, 1953

COURT OF APPEAL

The following cases are down for hearing in the Court of Appeal:

C.I.R. v. Universal Grinding Wheel Co Ltd.

{ Halbur Trust (in liquidation) v. C.I.R.

{ Burlah Trust (in liquidation) v. C.I.R.

John Hudson & Co Ltd v. E. A. Kirkness (Inspector of Taxes).

H. V. Boarland (Inspector of Taxes) v. The Madras Electric Supply Corporation.

Phillip Hutton v. C.I.R.

O. T. B. Sharkey (Inspector of Taxes) v. Sir Harold Wernher.

S. T. Patrick (Inspector of Taxes) v. Broadstone Mills Ltd.

Annotated Tax Cases

Part 7 of Volume XXXII of the *Annotated Tax Cases*, edited by Roy Borneman, Q.C., is published today and contains reports, with notes on the judgments, of the following cases: *Boarland v. Madras Electric Supply Corporation* (Ch.D.); *Fenwick v. C.I.R.* (H.L.); *Platt's Trustees v. C.I.R.* (Ch.D.); *Dale v. C.I.R.* (H.L.); *Glasgow Heritable Trust Ltd v. C.I.R.* (C.S.); *British Legion, Peterhead Branch v. C.I.R.* (C.S.); *Linlithgow Town Council Entertainments Committee v. C.I.R.* (C.S.); *Lomax v. Newton* (Ch.D.); *Strick v. Longsdon* (Ch.D.); *Haldin and Philipps Ltd v. C.I.R.* (Ch.D.); *Sharkey v. Wernher* (Ch.D.); *Patrick v. Broadstone Mills Ltd* (Ch.D.); *Griffiths v. Mockler* (Ch.D.); *In re Delhi Electric Supply and Traction Co Ltd* (Ch.D.); *Earl Beatty v. C.I.R.* (Ch.D.).

The annual subscription to the *Annotated Tax Cases* is 30s post free, the publishers being Gee & Co (Publishers) Ltd, 27-28 Basinghall Street, London, EC2.

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Monopolies and Restrictive Practices Commission

The Board of Trade announce the acceptance by Mr David Arnold Scott Cairns, Q.C., of his appointment as chairman of the Monopolies and Restrictive Practices Commission. Mr Cairns will take up this post on January 1st next, in succession to Sir Archibald Carter, G.C.M.G., K.C.B., K.C.I.E.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Monday: All-day visit to Martins Bank (limited number).
5.30 p.m.: Lecture (at Caxton Hall, Victoria Street, SW1) — 'The practical aspect of company meetings', by Mr W. F. Talbot, F.C.I.S., F.T.I.L., F.R.E.C.O.N.S.

Thursday: All-day visit to the Midland Bank (limited number).

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students. 5.15 p.m.: Introductory course lectures on (1) 'The items in a profit and loss account and balance sheet'; (2) 'Bankruptcy, liquidation and receivership'.

Liverpool Chartered Accountant Students' Association

Liverpool chartered accountant students played their annual soccer match against Chester and North Wales students at the Liverpool Ramblers Football Club ground, Crosby, on November 4th.

Liverpool students deservedly led at half-time by 4 goals to nil, and on resumption maintained their supremacy, scoring a further two goals. Chester and North Wales students pressed strongly during the final minutes, scoring once and causing a Liverpool player to put the ball through his own goal. The final result was a decisive victory for Liverpool by 6 goals to 2.

British Transport Commission Costing Service

Following the successful introduction in 1951 of a traffic costing service on a small scale, the British Transport Commission have approved the expansion of the service to meet the increasing demand for costing advice, especially in connection with questions of rates and charges under the new circumstances brought about by the Transport Act, 1953.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 24TH, 1928
Extract from a letter to the Editor.

The Training of the Articled Clerk

... I would suggest that a new test should be held both at the Intermediate and at the Final Examinations—this test, for want of a better name, I will call a personality test. The candidate would be required to conduct matters similar to the following, personally,

before a specially arranged examining audience.
Intermediate Examination.

- (a) Preside at a private meeting of creditors and explain the position disclosed by a statement of affairs submitted.
- (b) Interview a client on various specified matters arising in the course of an audit, and make suggestions.
- (c) Give full oral instructions to another as to the procedure to be adopted in regard to a specified audit.

Final Examination.

- (a) Preside at a meeting of shareholders and make the chairman's speech (after five minutes digest of the accounts and précis of the company's operations).
- (b) Conduct an income-tax appeal, arguing a debatable point as to the allowance of a certain expense, &c.
- (c) Interview a new client and fully explain the advantages of a complete audit.
- (d) Submit to cross-examination as an expert witness on certain questions of account. . . .

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 23RD, 1878

Extract from a Note in Passing

Act of Bankruptcy

In our judgment the provisions affecting the date of an adjudication apply to all incidental legal proceedings of the same character. As Lord Justice James well put it in his very able and lucid remarks, "the mere fact that section 11 was dealing with the question of the relation back of the trustee's title showed that it was dealing with the rights of third persons." Indeed, we hold that one of the main objects of section 11 is to guard the ordinary creditors from unfair preferences on the part of bill of sale holders and the like.

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The Accountant

ESTABLISHED 1874

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CONTENTS

Leading Article	<i>Page</i>
Estate Duty Anomalies: The Institute's Memorandum	593
Special Articles	
Tax Saving Schemes: Acceleration of Reversionary Interest by <i>T. J. Sophian</i>	595
Notice to Employees by <i>A Barrister-at-Law</i>	597
North American Commentary - XLVII by <i>Kenneth F. Byrd, M.A., B.Sc.(Econ.), A.C.A., C.A. (S.A.), Professor of Accounting, McGill University, Montreal</i>	599
Lecture	
Accountancy and Company Finance by <i>The Rt. Hon. Oliver Lyttelton, D.S.O., M.C., M.P.</i>	601
Weekly Notes	604
Finance and Commerce	
Trawlers Grimsby Ltd - Finance for Exports - Money Market	606
Reviews	608
Correspondence	610
Estate Duty: Review of Anomalies - I	
Memorandum submitted by the Council of The Institute of Chartered Accountants in England and Wales to the Board of Inland Revenue	614
Notes and Notices	
Personal - Professional Note - Inspector of Foreign Dividends - Insurance Scheme for Accountants - Approved Auditors: Friendly Societies - Rateable Value Analysis - The Chartered Accountant Students' Society of London - Bristol Chartered Accountant Students' Society - The Association of Incorporated Statisticians Limited - Chartered Accountants' Hockey Club - Our Contemporaries - Seventy-five Years Ago	618
The Chartered Accountant Students' Society of London	
News from the Committee	620

ESTATE DUTY ANOMALIES THE INSTITUTE'S MEMORANDUM

THE more estate duty law and practice are investigated, the more striking their defects become. A review of some of the anomalies published yesterday by the Institute lays bare a situation which clearly ought not to continue.

The review constitutes the memorandum prepared by the Institute in response to an invitation of the Board of Inland Revenue issued in July. This invitation followed the announcement on June 23rd that the CHANCELLOR OF THE EXCHEQUER had decided to examine estate duty anomalies, without formally setting up a committee for the purpose. We are reproducing the memorandum in this and our next issue.

The Institute's memorandum does not claim to be comprehensive (it covers only twenty-three pages) but it does provide an exhaustive study of those anomalies on which members of the Institute can best speak from experience, namely, matters of valuation and finance. The CHANCELLOR'S investigation is to concentrate particularly on the assets basis of valuation of shares in private companies, imposed by Section 55 of the Finance Act, 1940. But the glaring anomalies raised by that section, as interpreted by the Estate Duty Office, are only offshoots of the larger anomaly rooted in the general basis of valuation laid down by Section 7 (5) of the Finance Act, 1894, and extended by Section 60 (2) of the Finance (1909-10) Act, 1910. The Institute has drafted an admirable indictment of this statutory basis of valuation, in these words:

"Thus, the valuation rests on the opinion of the Commissioners, who are required to assume as on the date of death an open market (which will often not exist) and a willing buyer (who may not be forthcoming) and they are required to arrive in this way at a hypothetical price at the time of death, irrespective of the actual price at which the property may be sold after death in order to pay the duty. Such a method of valuation is entirely arbitrary and ought no longer to be tolerated when the duty involved is as high as that now imposed'.

The origin of most of the injustice of estate duty lies in the fact that when the framework was laid down in 1894, the highest rate was only 8 per cent and applied only to estates of £1 million and over; estates which must have been extremely rare in those days. Even then it was already clear that whatever the theory might be, estate duty was not a mere stamp duty on probates but a substantial tax on inheritance. However, it was not until 1949 that the logical next step of repealing succession and legacy duties was taken. Even this was accompanied by an increase in estate

duty rates which penalized near relatives of deceased persons. Moreover, the repealed duties had at least been confined to the benefits which the beneficiary received; estate duty is charged on what he might have got but seldom does.

It could be assumed in 1894 that the larger estates consisted mainly of land. The Act of that year, which still applies, permitted payment of duty on real property by instalments spread over eight years. The top rate being 8 per cent, this meant a charge of only 1 per cent per annum which was probably only a fraction of the net income from the land. Accordingly the duty could comfortably be paid out of income and the land need not be sold. Moreover, interest does not arise until a year after the death.

Personal estate, which in the 'nineties might constitute only a minor part of the total estate, attracts liability for immediate payment of duty. Such personal estate as there was would be easily realizable, even assuming so drastic a step as sale was necessary. How different the position is now. Very many large estates consist mainly of shares in private companies, a form of property unknown in 1894. Even if these were valued at their true realizable worth it would be impossible to pay the duty out of income subject to income-tax and sur-tax. But as the memorandum points out, it is not the realizable value which is taken. Although, theoretically, the value as at the date of death is to be applied, the valuer must assume that the realization is made in the manner and at the times subsequent to the death as will produce the best sales. In these circumstances the Institute does well to recommend that where property is sold within a year, the estate duty valuation should not exceed the actual net proceeds, after deducting the sale expenses.

We have hinted at the ancient conception of estate duty as being a mere stamp duty on the probate or letters of administration; as one of the minor incidental expenses of taking out representation. This is reflected in the harsh rule that representation cannot be granted until estate duty on personal estate, with certain exceptions, has been paid. As the Institute points out, in these days payment of the duty almost invariably involves selling or charging the assets. This cannot be done without the probate or letters of administration. Accordingly the personal representatives are in a vicious circle. It is for this

reason that the Institute recommends the compromise in paragraph (17).

The option provided for in sub-paragraph (c) of that paragraph could, we think, be reasonably extended to shares in companies owning land. If land itself is entitled to special treatment, then shareholders in land-owning companies should not lose the benefit merely because of the legal rule that shares are always personal property.

In this connection, the recommendations in regard to relief for quick succession (paragraph 47) could well be extended, on similar grounds, to shares in companies owning land. Quick succession relief was introduced at a time when the maximum rate was still only 20 per cent. It extended not only to land and businesses but also to 'any interest in land', although shares in companies carrying on business were specifically excluded. To anyone but a lawyer, shares in a land-owning company are certainly an interest in land. If the relief is to extend to shares in trading companies, it can equally be applied to shares in land-owning companies.

The memorandum contains a restrained but telling criticism of Part IV of the Finance Act, 1940. Although the baffling Section 46 is hardly ever applied, the Institute does well to recommend that its operation should be restricted, for as the memorandum points out, it introduces a great deal of uncertainty into deals in company shares. Moreover, it is in frequent use by the Estate Duty Office as a vague threat to induce agreement on a Section 55 valuation. We would add that no substantive amendment of Section 46 should be unaccompanied by a drastic revision of the drafting, which is everyone's despair. We should like to think that only a situation like Dunkirk could have induced Parliament to pass such monstrous legislation.

Section 55 was specifically mentioned by the CHANCELLOR and it has pride of place in the memorandum. No one seriously disputes that this section is really an anti-evasion section, but the Estate Duty Office through crocodile tears always points out that the section is mandatory, and proceeds to apply it in its full rigour wherever possible. This attitude is hardly consistent with the large number of 'extra-statutory' concessions to which wide publicity is given, nor with the undertaking given in July 1944 that the Act would be applied 'in a reasonable manner'.

TAX SAVING SCHEMES

ACCELERATION OF REVERSIONARY INTEREST

by T. J. SOPHIAN

THE important question whether the release of a life interest under a settlement constitutes a voluntary disposition *inter vivos* for the purpose of stamp duty, was determined in favour of the Revenue in the recent case of *Platt's Trustees v. C.I.R.* ([1953] 32 A.T.C. 292). The basis of that decision is of importance since it throws some light on the question whether such a release might constitute a 'settlement' for the purposes of the provisions of Chapters II and III of the Income Tax Act, 1952, as regards settlements, so as to render the income which otherwise would have belonged to the owner of the life interest, his or her notional income for tax purposes, notwithstanding the release.

In *Platt's* case, the residuary estate of a testator was bequeathed on trust to pay half of the income therefrom to the widow during her lifetime and the remainder during the widow's lifetime, to the testator's children in equal shares. In the event of the death of a child in the widow's lifetime, his or her share was to pass to the children of that deceased child. *After the widow's death*, the residuary estate was to be held for the children of the testator, but without vesting absolutely in them. It was to be held on certain trusts, according to which, *inter alia*, the income was payable to each son during life and to each daughter during coverture.

The testator had three sons, of age, and two daughters who were married, and each of the sons had infant children. There were a number of deeds involved in the appeal, but for the sake of simplicity, one may confine one's observations to a single deed. This deed was made between a son and the trustees, and under it the son surrendered (a) his right to receive his portion of the trust income from the residuary estate during the widow's lifetime; and (b) his life interest in his share of such residuary estate, which would have arisen on the widow's death.

Stamp Duty on 'Conveyance or Transfer on Sale'

Under Section 24 and Schedule I of the Stamp Act, 1891, which has since been amended by, *inter alia*, the Finance Act, 1949, a conveyance or transfer on sale has to bear a stamp of an amount calculated according to a certain percentage of the *amount or value of the con-*

sideration for the sale. By Section 74 of the Finance (1909-10) Act, 1910, however, in the case of a conveyance or transfer operating as a voluntary disposition *inter vivos*, stamp duty is to be chargeable in the same way as if the transaction were a conveyance or transfer on sale, with the substitution in each case of the *value of the property transferred* instead of the amount or value of the consideration for the sale.

In the case, on the other hand, of a 'release or renunciation of any property or of any right or interest in any property' otherwise than on a sale or by way of security, a fixed duty of 10s only is payable, irrespective of the value of the property concerned, and this fixed duty of 10s only is also payable in the case of a surrender of any other kind whatsoever not chargeable with duty as a conveyance on sale or a mortgage (see Stamp Act, 1891, Schedule 1).

'Release' and 'Surrender' distinct from 'Transfer Operating a Voluntary Disposition'

The trustees in the above case argued that only a 10s fixed stamp duty was chargeable since, they contended, that the transaction was either a 'release' or a 'surrender' of the kind attracting a 10s duty. The Revenue on the other hand, argued that the transaction fell within Section 74 of the Finance (1909-10) Act, 1910, as being a 'conveyance or transfer operating as a voluntary disposition *inter vivos*'.

The Court took the view that the document was a conveyance or transfer, although it was described as a 'release' or 'surrender', and that it operated as a voluntary disposition *inter vivos*, since it had the effect of accelerating or bringing into operation interests (i.e. those of the children of the children of the testator) which, but for its execution, would not have existed.

In arriving at this decision the Court was guided by the decision of the House of Lords in *Stansforth and Hon. John Mills v. C.I.R.* ([1930] 9 A.T.C. 128; A.C. 339). In that case a deed poll was executed by the first and second life-tenants of an estate, whereby a partial resettlement was effected. In substance the effect was to cut out the interests of the second successor of the settlor and his issue and to accelerate the interests of the remaindermen who were postponed to this son and his issue.

The deed poll was executed in pursuance of a power of revocation and new appointment contained in previous dispositions of the property, and the present deed itself was subject to a similar power of revocation and new appointment, so that there was always in existence the possibility of the exercise of this power at any time, the effect of which might destroy or limit the interests thereby accelerated.

The House of Lords determined a number of important points in this case. They held that the resettlement operated as a voluntary disposition *inter vivos*; a point which was no longer seriously contested when the case came before them. Accordingly, this decision is authority for the view that a transaction by which an interest is surrendered and other interests are accelerated is a 'conveyance or transfer operating as a voluntary disposition *inter vivos*' within Section 74 of the Finance (1909-10) Act, 1910.

The substantial point of importance, however, in the *Stanyforth* case is the fact that the House took the view (a) that the value of the interest 'transferred' was

'the difference between what the second son had (1) before and (2) after the resettlement, which difference was by the resettlement transferred from the second son and his issue to other persons',

but (b) that in valuing this transferred interest, the overriding powers of revocation and new appointment had to be taken into account with the result that they reduced the value of the transferred interests to a round sum not exceeding, as the Commissioners found, £50, so that the amount of duty would be 10s and not the *ad valorem* duty of £19,907, which the Commissioners had fixed.

It is interesting to note that on this point of valuation the House of Lords overruled the decision in *Earl of Westmorland v. C.I.R.* ([1928] 1 K.B. 703). In the latter case the only power of revocation was contained in the conveyance or transfer itself, but the House considered in the *Stanyforth* case that that fact should have made no difference, for the subject-matter of the conveyance or transfer would be just as much affected in value by a power of revocation contained in the deed of transfer as in some other deed. In the *Westmorland* case the stamp duty was charged on the value of the property conveyed, and this basis of assessment of the duty was held to be erroneous.

Surrender of Life Interest whether 'Settlement'
Such decisions as *Stanyforth* and *Platt*, lead one to consider whether they are applicable for the

purpose of determining what is a 'settlement' for tax purposes. In this connection, moreover, one must distinguish between the wide and enlarged definition of 'settlement' for the purpose of settlements on minor and unmarried children, and the equally wide but not quite so enlarged definition of 'settlement' in other cases.

There is this much common to each definition in that the expression will include any 'disposition, trust, covenant, agreement or arrangement', but in the case of settlements on children the definition will include also any 'transfer of assets' (compare for this purpose Section 403 with Section 411 (1) of the Income Tax Act, 1952).

And it must be realized that this distinction, created by the inclusion of the words 'transfer of assets', was responsible for the decision of the House of Lords in *Thomas v. Marshall* ([1952] 31 A.T.C. 245; 2 All E.R. 32) (affirming the *Hood-Barrs* case ([1945] 24 A.T.C. 97; 1 All E.R. 500), to the effect that even an absolute gift to an infant or unmarried child would constitute a 'settlement' so as to render the income therefrom for tax purposes the notional income of the parent, the settlor.

Now it can be argued, if the surrender of a life interest with the consequent acceleration of the reversionary interest expectant thereon constitutes a 'conveyance or transfer operating as a voluntary disposition *inter vivos*' for the purpose of stamp duty, that such surrender also constitutes a 'transfer' or a 'disposition' and accordingly a 'settlement' for tax purposes. For example, this situation may arise: a parent may be a tenant for life under a settlement, which gives a remainder to his child. While the child is an infant, and unmarried, the parent releases or surrenders his life interest, thereby accelerating the reversionary interest of the infant son, so that the trust income in point of fact thereupon becomes the income of the child and no longer that of the parent. If in such circumstances it were said that the surrender of the life interest operated as a 'settlement' for tax purposes, then the surrender of the life interest by the parent would be ineffective for the purpose of preventing the trust income from being any longer that of the parent, and in consequence, while the child remained an infant and unmarried, the trust income, notwithstanding the surrender, would be treated for tax purposes as being still the income of the parent.

This is a problem which, it seems, only the Courts can solve, but it would indeed be strange if a decision on stamp duty were extended to apply to a different subject-matter, such as income-tax.

NOTICE TO EMPLOYEES

by a Barrister-at-Law

PROBLEMS arising from notice to terminate employment are unfortunately fairly frequently met with by legal advisers, even though they do not often come before the Courts, and the termination of an engagement in the proper way and in fairness to all parties is one of the more important duties of staff management.

When an unsuccessful attempt is made by an employer to terminate an engagement the results can be most unfortunate: not only are relations strained with the individual concerned and possibly with a trade union which intervenes on his behalf too, but such a step can undermine the confidence in the management of the whole department, shop or works. Sympathies are nearly always with the employee at the best of times, however justifiable may be the action taken, and no employer needs telling that it is better to err on the right side than on the wrong in a matter which every employee feels vitally affects his own position in the company.

Duty to Employees

Employers have a duty to the man himself, a fact which is not always remembered sufficiently. Whatever may be the faults of the man leaving – sometimes there is no fault on his part at all, it may be merely that circumstances inside the company require a change to be made – it is always in the power of a man to remedy them later. Nothing should be done to prejudice him in future employment or to cause any avoidable hardship while he is seeking another position, without a very careful consideration of all the possible consequences.

The loss of an employee may or may not be serious to an employer: if good relations within the firm are maintained there is frequently little inconvenience; but to the man, the loss of his position means in some cases the vanishing overnight of his whole livelihood and the necessity to seek with all speed an alternative means of support for himself and his dependants, sometimes when he is least in a position to fend for himself.

Few people are willing to recognize their own faults, even those that are most obvious to others, and the loss of his position can be a very severe blow to a man's pride as well as to his pocket. He sometimes feels most keenly the fact of being given notice or even being asked to resign: the situation can cause ill-feeling and lead to un-

necessary disputes. The whole working of a small company may be undermined by the high-handed treatment of one employee, even though all his fellow workers may well realize that he is by no means the most competent in his work.

Payment in Lieu of Notice

Many employers prefer when dispensing with the services of their men to pay wages for the period of notice rather than have a dissatisfied man at work. This practice is generally accepted on both sides, and although in some circumstances it might be technically a breach of contract, the man dismissed has no effective claim for damages since he has suffered no loss compared with his position if the employment had been terminated in the regular way. This is assuming, of course, that he had no right to additional pay from overtime or commission.

It is sometimes thought that this practice confers a reciprocal right on the employee to determine the engagement similarly without notice by offering the equivalent of his pay. This is not so, however, for a moment's reflection will show that in such a case the employer might well suffer much more damage than the amount of the employee's pay for the period.

The Proper Length of Notice

People are often vague about what is the proper length of notice required for any particular form of employment and there are one or two popular misconceptions which tend to confuse the issue. In the first place, it should be remembered that the primary method of determining what notice is sufficient – the method which takes precedence over all others – is the original agreement of employment. If one month's notice was agreed upon on engaging, all other factors become irrelevant and one month's notice must be given, apart, that is, from dismissal without notice, which is not being considered here.

Next, even without express agreement, an agreement may be implied from attendant circumstances which will take precedence over all other considerations in determining what is the proper period. If a custom in one particular trade is for a week's notice to be given and circumstances strongly suggest that one man was engaged on a monthly basis, as for instance the express terms of a previous engagement which has been renewed without a fresh mention of any

terms, the implied agreement will govern the man's terms of engagement notwithstanding the custom, and he will be entitled to one month's notice on leaving.

In default of any agreement, express or implied, the law leans in favour of a reasonable period on all possible occasions, and will be guided primarily by custom in the trade and other considerations (which will be mentioned later) in coming to a decision on what is reasonable.

An Example

The following is an example of the sort of problem which sometimes arises. A dealer in ladies' wear who had been a traveller obtained a position as the London representative of a Midlands firm of stocking manufacturers, the terms of his engagement being left rather vague. The company was a small private one and all the discussions on his appointment were made with the senior director on quite a friendly basis as the two were personally acquainted. Nothing was recorded of the agreement and no terms of service were stipulated in detail, least of all notice to terminate the engagement, which was neither discussed nor contemplated. The only written evidence of his position that the agent could produce later was an entry in the company's diary, which was circulated to customers, that he was their London agent. His remuneration was based on sales, the total commission being adjusted quarterly, with reasonable drawings permitted as required; there was a guaranteed minimum salary which he had no occasion to fall back upon.

After the agent had been working for the company for a number of years, the senior director died and was succeeded by his son, with whom the agent had comparatively little contact. The son had more drive than the father and in an effort to expand sales, sent other representatives down to London in the agent's area, and the agent objected to this: ('I hear you've been sending your secret agent down again' was his opening of one telephone conversation.) The differences eventually became acute and the agent received a month's notice to terminate his appointment with the company.

The agent somewhat naturally thought this was too short a period to wind up his affairs and find an alternative position, and after some protracted correspondence a further period of two months was agreed upon, and it is probable that he was entitled to this. A mere agency or representation in a district may in some circumstances be terminated without notice, for it is often not a contract of employment at all, the agent not

being a paid servant but working on his own account. Normally, however, a traveller or representative is a paid employee, and is entitled to notice in just the same way as any other.

Determining 'a reasonable period'

The difficulty is to know how long the notice ought to be: in default of express or implied agreement, as mentioned above, the law requires that a reasonable period of notice shall be given, and in determining what is reasonable a number of factors are taken into account, only one of which is the period between pay-days. It is not correct to say, as is popularly supposed, that payment by the week means that a week's notice is sufficient. Sometimes an agreed rate of pay calculated by the month or the year will lead to the presumption that the engagement is a monthly or yearly one respectively, but not by any means always. A bank clerk, for instance, may be remunerated at the rate of four hundred pounds a year, paid in equal monthly instalments, and yet be entitled without express agreement to three months' notice because that is customary for his employment.

Custom is the primary guide in law to what is reasonable, but in default of any clear indication from this, four other factors are taken into account: the nature of the employment, the original agreed period of engagement, if any (sometimes the original period is quite indefinite, with allowances for pensions after many years' service, whilst other agreements stipulate for six months' trial and then there is no express renewal), the length of time which the man has served the employer, and last, the intervals at which he is paid.

Past Decisions

Past decisions on what is reasonable notice may be a guide to the more responsible positions whilst the less important will almost invariably be governed by a custom with which all in the particular trade are familiar, or will be expressly mentioned to the man by the manager or fellow employees when he enters a business. In the past, the Courts have decided that a month is reasonable for a clerk in a less responsible position, an advertising agent and a shop manager; three months for a more responsible clerk and a commercial traveller; whilst company directors and (perhaps strangely in view of the frequency with which they are popularly supposed to change employment) journalists and editors in the top positions, anything up to a year. The more responsible the position the longer the period of notice required.

NORTH AMERICAN COMMENTARY—XLVII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.)
Professor of Accounting, McGill University, Montreal.

Journal of Accountancy,
New York, August

Professional Unity

SINCE the merger of the two national professional accounting societies into the American Institute of Accountants in 1936, the Institute membership has grown from 4,900 to 21,000. There has been great progress, says the editorial, in co-ordinating the activities of the state and national societies of certified public accountants. The presidents of state societies are *ex officio* members of the Institute Council and the paid executives of the societies meet regularly, as an association, with the Institute's staff. The Institute has a state society service department which is a clearing-house of information for the states. All officers, directors and committee-men of the state societies are being invited to a session on 'State society management' at the annual meeting of the Institute in October, and it is hoped that the outcome will be a programme of development activities for years to come. Commenting that still half the certified public accountants are not members of either state or national C.P.A. organizations, the editorial hopes for an increasing proportion.

Government Reliance on Certified Public Accountants

The editorial welcomes evidence that the fears of a few years ago that the Federal Government might compete with the accounting profession are proving groundless. As one example, the Rural Electrification Administration is said to have dropped its own auditing staff in favour of audits by certified public accountants, of the accounts of recipients of R.E.A. funds.

The Economists' Criticisms of Accountants

Professor James L. Dohr, Professor of Accounting, Columbia University Graduate School of Business, examines the economists' criticisms of accountants. He contests the opinion that accountants only look back, citing the accountant's planning of finances, flexible budgets and standard costs as evidence to the contrary. He deals with the concept of income and the realization postulate, the accountant's determination of cost and his failure to consider replacement and

to deal with opportunity cost. As to replacement cost, he points out that both economists and accountants are divided. Professor Dohr shows that analysis in terms of variable and constant costs and much that is termed economic have been used by accountants for many years, and he claims that economic analysis is little more than the present accounting analysis. This article should stimulate accountants to some self-analysis and an appreciation of the growing need for the informed accountant of today to acquaint himself with economic theory.

Shortening the External Audit

Various means of using the clients' own staff to save external audit time are explored by Mr James W. Porter, C.P.A. He states that while business men want to cut audit costs, they are learning that accountants, though critical and analytical in their audit techniques, have a more constructive side. Accountants must be ready to advise at a price within the client's means.

The Reporting of Income

Professor R. K. Mautz, PH.D., C.P.A., of the University of Illinois, suggests that controversy as to the form of the income statement might be resolved by giving more emphasis to its reporting aspect and less to its form as a calculating schedule for the determination of net income. He says that the importance of accurate calculation has been over-emphasized and that a report headlining the net income for the year, followed by the other important facts, might correct this undesirable trend.

The Controller,
New York, August

Scientific Sampling for Management and Accountants

Claiming that for most purposes of planning and controlling business operations data need not be perfectly accurate, Professor John Neter, of Syracuse University, urges the advantages of scientific sampling for both cost saving and timeliness. Thus variances need to be revealed as soon as possible to permit correction in the early stages. Professor Neter explains how the use of statistical techniques enables the risks to be

known and their acceptability to be determined. He quotes the case of the Standard Register Company which changed to sampling from 100 per cent inspection of sales invoices. The result, says Professor Neter, was a 47 per cent reduction in time spent in verifying invoices, with no loss of accuracy. He urges both management and accountants to study the basic concepts and tools of statistics.

Corporate Debt Financing

The American Institute of Management, New York, has issued a report entitled 'The doubtful value of corporate debt'. The report states that during 1946-51, corporate debt in the United States rose 13.8 per cent compared with 6.3 per cent in 1922-30. It warns against the dangers of this expansion of business at the expense of creditors during inflation. The recommendations to management are that (1) equity securities should be the preferred means of raising capital, and (2) employee stock ownership should be explored as a source of equity capital since total wages and salaries paid in 1952 exceeded \$177 billion and accrued savings were nearly \$19 billion.

*Cost and Management,
Hamilton, September*

Productivity through Participation

Mr R. P. Pattee, of Canadian Tube and Steel Products Limited, tells of his company's human relations training programme. It started two years ago with the management group, an enthusiastic and experienced training supervisor being selected from the company's personnel. Monthly sessions are held in groups of twelve to fourteen, and all forms of training technique of a participatory nature are employed. Recently the case study technique has been developed, the supervisors studying and discussing a company experience. As a result the company is more than ever convinced that the psychological needs of the labour leader and the worker can thus be met by a co-operative management. Labour-management production committees are now organized across the plant, each with equal representation of management and labour. They meet every six weeks to promote ideas from the workers for reduction of costs or improvement of productivity, under the direction of the training supervisor. It has been found that such training at the management level reduces the reluctance of line supervisors to introduce the psychological desires of the workers. The company believes that such attention to psychological needs can

best cope with those demands of workers which cannot be met without encouraging an inflationary economy.

*The Canadian Chartered Accountant,
Toronto, August*

Corporate Financial Statements

The editorial comments on a report by the Montreal Board of Trade dealing with corporate financial reporting in Canada. Of fifty-five reports only ten are said to have been rated as even 75 per cent adequate in general layout, the majority falling in the 60 per cent group, while at least one was classed as 5 per cent adequate. Thirteen did not meet the statutory requirements of the Dominion Companies Act and only twelve gave details needed for an intelligent analysis of the profit and loss statement. On the same subject, Mr John A. Wilson, F.C.A., points out, says the editorial, that the trend towards resplendent brochures, illustrated charts and photographs is aimed at influencing shareholders, bankers, suppliers, customers, employees, union organizers and the general public. He warns that by aiming at all, such reports fail to meet the requirements of any.

Recruitment and Training for the Profession

Nearly 3,500 students and about 450 newly qualified chartered accountants have been sent a questionnaire by the Canadian Institute's committee on recruitment and training, says the editorial. This is hailed as an indication that the profession is facing its responsibilities for improving the methods of training for the profession, to meet the demands of industry, commerce and finance.

Course of Instruction for Chartered Accountant Students

Professor W. G. Leonard, F.C.A., Director of Professional Courses in the School of Commerce and Administration at Queen's University, discusses the course of correspondence instruction of which he is director. Twenty-six written tests are given for each of five years, each year running to a fixed schedule. Each lesson is meant to take one week of study. Professor Leonard suggests that employers can best help their students by formally supervising the writing of tests, say once a month during the full course, with perhaps later meetings to discuss each test after it has been marked. It should be explained that the course in question is the official course of the Ontario Institute of Chartered Accountants.

ACCOUNTANCY AND COMPANY FINANCE

SECURITY FOR BANK ADVANCES

by The Rt. Hon. OLIVER LYTTTELTON, D.S.O., M.C., M.P.

THE London and District Society of Chartered Accountants held a luncheon on November 3rd at the Connaught Rooms, London, at which the speaker was the Rt. Hon. Oliver Lyttelton, D.S.O., M.C., M.P. The chair was taken by Mr W. G. Densem, F.C.A., chairman of the society.

In a brief introduction, the chairman said that they were grateful that Mr Lyttelton had been able to spare time from his manifold duties to come and talk to them. After a distinguished career in the Army, he had gone into the City. He had rendered distinguished service to his country as Minister in various governments and was now Secretary for the Colonies.

Mr Lyttelton's Address

Mr Lyttelton, who was received with applause, said: Mr chairman, ladies and gentlemen, as a Minister I was delighted to receive your invitation. As chairman of a company – which in my less controversial days was a position which I once occupied – I should perhaps have felt more inhibited.

As the business world progresses, its leaders become more and more *in statu pupillari* to the distinguished profession which most of you who are here adorn, and short of offending the bank manager, the most impolitic thing for a business man to do is to offend the auditors. (Laughter.) Certainly his prosperity – and possibly on occasions his liberty – may be compromised. (Laughter.) Ministers, however, are, as far as any class of the community can be, beyond your clutches.

2 and 1 rarely make 3

Speaking a little more seriously – but not much more – I think it is remarkable how, in a wide sphere, the general public really believe that facts are always facts. They persist in thinking that 2 and 1 make 3. Of course it is unnecessary to tell you that 2 and 1 rarely make 3. (Laughter.) This is not a joke but a fact. You know that 2 and 1 make 3 only on the premise that the three units with which you are dealing are exactly similar in nature and, of course,

in real life they seldom, if ever, are. (Laughter.)

There used to be a wisecrack: one Englishman an idiot; two Englishmen a match; and three Englishmen a great nation; and somebody else said: one Frenchman an intelligent man; two Frenchmen a conversation; and three Frenchmen a *ménage*. (Laughter.)

I only mention these things to point out what you all know well, that 2 and 1 in ordinary life never, never, make 3. If you were to see Mr Attlee, Mr Bevan and myself on our way to a football match, you would say that that was not a case of 2 and 1 making 3. (Laughter.)

The same thing applies to the layman's view of the profession of the chartered accountant, which he thinks is solely concerned with figures and that figures are seldom a matter of opinion. I am not, of course, at all anxious to promulgate, especially in political circles, the idea that figures are a matter of opinion, but you in your profession know how frequently they are. How many of the laity really understand that most industrial debentures, for example, are secured on goodwill?



Elliott & Fry

The Rt. Hon. Oliver Lyttelton, D.S.O., M.C., M.P.

Covered by Fixed Assets

With the full approval of your profession, prospectuses continue to be printed which say that the debenture is covered three times by the fixed assets, 'covered' being a word which in its turn covers a multitude of E. and O.E. (Laughter.) I build a factory to make what the Board of Trade calls 'ladies' knitwear'. I spend £3 million on that factory and equip it with a great number of knitting machines to make the wide range of knitted garments with which the female sex keep themselves warm and endeavour to entrap the other sex into matrimony or similar indiscretions. (Laughter.)

Well, there is the factory. I put a debenture of £1 million on it and, with the approval of your profession, I say in the prospectus that the debenture is covered three times by fixed assets. In the first year of its operations the factory makes a loss of £100,000; the knitwear ladders and is generally unattractive, but there we are, and what is the value of the £3 million? To a jaundiced observer it would appear to

be very little, because all that it has been able to achieve in the year under review – a phrase well known to you (laughter) – is a loss, and are things really assets which provide you with losses? That is a question with which you so frequently have to deal.

However, the knitwear having been a failure, in the following year the debenture-holders, advised by your profession, enter upon their security and they are therefore faced with either carrying on the knitwear manufacture under a new management and possibly with a new series of losses, or with selling the factory to a firm, say, of locomotive manufacturers, who want more factory space.

The buildings are not high enough for locomotive manufacture and have to be modified, nor of course are any of the knitting machines particularly applicable to the manufacture of locomotive parts. In short, the best bid they can get for their factory is £300,000. Yet, you know, having read it in the prospectus, that the debenture is covered three times by the fixed assets. (Laughter.) In my imaginary instance it would appear to me that the debenture exceeds the fixed assets by three times.

Relation between Fixed Assets and Debentures

Of course this is all child's play to you, but there still remains the idea that the relationship between fixed assets and debentures in fact gives a debenture-holder a security. He has that security, of course, always provided that the fixed assets are fruitful. Few industrial debentures are secured so well, but, of course, you must not say so. (Laughter.)

Again, let us suppose that on a corner site in the centre of this metropolis I have a large theatre. I borrow half a million pounds upon that theatre in nice fat debentures bearing $5\frac{1}{2}$ per cent issued at 97 and redeemable at 105. The theatre happens to be so constructed, and the rates and taxes upon it are so expensive, that only the longest runs – and they are not by any means an invariable feature of theatrical productions – will make me a profit.

In this case just the reverse arguments begin to appear. As long as the theatre remains a going concern and does not go bust, the debenture-holders are perpetually worried as to whether they are going to get their interest, but the moment it does go bust and the debenture-holders enter upon their security they may sell it, and they are paid off at 105, so that in this case the last thing the debenture-holders want is for the concern to trade at a profit. (Laughter.)

I mention these two examples, which no doubt are elementary to you, with great diffidence before so experienced and intelligent an audience because I wish to underline the fact that the laity think that figures are figures and that the profession of the chartered accountant deals only with facts. Actually it deals with matters of opinion and it is because you are so alive to the pitfalls – some simple examples of which I have quoted – that your profession is held in such high esteem both by the business community –

who must hold it in esteem to survive (laughter), and also by Ministers, who will possibly survive without it. (Laughter.)

The Chartered Accountant's Service to the Public and the State

Speaking more seriously, I think it is true to say that there are two bodies perhaps at the head of the list which have done estimable service to the public and to the State over company management and company finance; they are The Institute of Chartered Accountants and the Council of the Stock Exchange.

The scandals which sometimes used to attend the management of joint stock companies and the issue of their securities to the public have been enormously reduced by the wisdom and perspicacity by which chartered accountants and the Council of the Stock Exchange have dealt with these matters, but you would be the last to say that there are no loopholes through which the dishonest may escape.

Holding Companies

Indeed, it has always appeared to me that whilst the Companies Act – as revised by my great friend Lord Justice Cohen, and his Commission – is a wonderful piece of work when applied to single companies, it is less satisfactory when it applies to the modern system of holding companies and their subsidiaries. I would not attempt, because it might help some people who do not know, to describe how dishonest people running a holding company with subsidiaries could keep within the law and get away with a great deal which would be highly reprehensible. It will have come, no doubt, within the course of your professional life, to see cases where the shareholders' assets were legally distributed by way of dividend, and I think it would be fatal if I were to describe how if I wanted to do it I could. I should not be asked to this lunch but I should still be at large. (Laughter.)

I have been connected myself, when not a Minister, with holding companies all my life, and I have always asked the board and the auditors of these companies to scrutinize all their transactions with more than usual care, because I did not feel, and still do not feel, that the law pays sufficient regard to the group of companies, as opposed to the single trading or finance entity.

That, of course, leads me into the vexed subject of how far the law hampers the just in order to prevent the unjust getting away with it, and here is admittedly the most difficult of all subjects connected with joint stock companies.

Auditors and Control of Companies

I often used to feel that we have already gone a bit too far and that the auditors of a company were getting very near exercising a control over its policy in ways which the management would think undesirable. These feelings generally arose in my bosom about February, when our friends the auditors started upon their annual inquisition, but after the

annual general meeting, I felt as a rule that whilst we should go no further, on the whole we had struck a reasonable balance between the industrial arthritis of too much law and too much inquisition and the equal disease of a sort of free-for-all in a world in which rogues will again be seen, as they have been, in the past. (Laughter.)

I have always admired the wisdom with which our own auditors walked along the razor-edge of keeping a great and powerful company in order without at the same time hampering legitimate trading and manufacture. You will perhaps think it slightly out of place, but I hope not, if I tell you that I do not expect chartered accountants to run the policy of the company, and have always resisted any attempts that they should do so. It is unfair to them to expect them to do it.

Valuations of Going Concerns

Again, chartered accountants' valuations of going concerns are matters which should be dealt with by the company director with great circumspection. I have never sold a company upon a chartered accountant's valuation; I have bought many. (Laughter.) When some young aspirant to commercial honours asks me for a piece of advice – and I have been accustomed to give them many pieces of advice – one of them would be: 'Never sell a company on a chartered accountant's valuation, but if you can buy one upon it you will, in the long run, prosper.' (Laughter.)

Study the Theory of Business

As a digression, I mention a further piece of advice that I give – and quite wrongly I was recently criticized by the Press for giving it – is that a young man should study the theory of business, how the machine works upon a theoretical basis, how the money market works, and the meaning of exchanges, before plunging into the practice of business.

It was in these matters that I once said that I did not like amateurs. No one in trade or industry, for example, should be without a profound knowledge of the banking system and should know why the banker differs from any other kind of trader. You and I know quite well that it is because he has to pay his liabilities on demand, and you and I know that a reputed Rembrandt or even a reputed Renoir is not the best pledge that you can make to a bank for over-trading in your private business.

Securities for Bank Advances

But I am sure it has come as a surprise to you, in the course of your life, how often traders think that such things are suitable securities for bank advances. How often, if they are not careful, are banks' advances invested in plant and buildings, often without the directors being really aware of what they are doing. Yet banks' advances are quick, and bricks and mortar are slow, when we are speaking of assets.

Another piece of advice that I give is an aspect of the same thing; it is that on the whole a man would

be well advised to study a different sort of business from the one which he will eventually embrace. The trader who knows what an acceptance credit is, who knows the liabilities of the endorers of a bill of exchange or of a cheque, a trader who has a glimmer of what c.i.f. means, starts at a great advantage over a great many of his competitors.

How many of the young men working their way up in business know exactly when the property passes on a c.i.f. contract, and since very few people do know, he is unlikely to pick it up unless he has made a particular study of it. Can anyone carry on the sale of industrial commodities efficiently without knowing something of the law of condonation, which has trapped many of the unwary?

Definition of an Asset

All this is a digression, and leads me back to why I am so glad to have had this opportunity of addressing you, because I am about to give a definition of an asset which I am sure will astonish the business world. An asset is what a leading firm of chartered accountants will certify as an asset. (Laughter.) I can think of no other definition which would be satisfactory, and let me again give an illustration of what I mean.

Lyttelton & Co, bankers, lend the State of Ruritania, say, £10 million at 5 per cent, redeemable at the option of the lender after seven years at 105, and to be redeemed in any case in fifteen years at 105. The Ruritanian finances are rather of a musical comedy nature and a number of unorthodox devices are resorted to by the Government of Ruritania to pay their interest. Let us suppose that when the loan falls due in fifteen years' time, so far from having £10 million to repay, they would have some difficulty in collecting £500,000.

A Shock

If at that moment you have got some Ruritanian 'fives' in your portfolio and you can go to your auditors and ask them what they value them at, you will get a shock, and you will probably be involved in using some of your current profits to write down this part of your portfolio. The wiser people wait until Lyttelton & Co, the loan being about to mature, lend the Ruritanian Government another £15 million at 97½ plus the first coupon. (Laughter.) The new Ruritanian 68's are a good market as the Ruritanian Government has not defaulted either upon the interest on its previous loan or upon its repayment; in other words, your new loan valorizes both itself and the loan which went before it. (Laughter.)

I freely admit that this is a somewhat frivolous instance, but I give it as an example of how dangerous it is to ask people to value your assets unless you have at the same time, by other means, secured that they will regard them as assets and not as pieces of paper. All sorts of financial and exchange crises have occurred by lenders precipitately asking that loans should be paid back and have, by one stroke of the pen, bankrupted their clients, cost them-

selves heavy losses and frozen up international trade.

And that leads me to one last remark which may strike you as being a paradox: that on the whole it will be found that there is only one way of lending money, and that is upon the expectation or calculation that you may get it back. Finance corporations, which are sometimes asked to lend money upon other considerations, especially to small traders, have indeed a difficult task; they are as a rule beaten by the factor of diversity.

Impossible for a Banker

It is, in practice, almost impossible for a banker who is lending against security to judge the merits at 10 a.m. of a business making brass bedsteads, at 10.30 of one running a hotel, at 11 o'clock of one operating trawlers, at 11.30 of one engaged in the hire-purchase of refrigerators, at 12 o'clock of one engaged in a chemical process, and at 12.30 of one rolling steel billets into a variety of products. The banker is repulsed by the diversity of the judgments which he has to make. He would not have the difficulty in judging the security offered.

'What is Your Security?'

You would not find a board of directors who could

deal with all these matters in one day, so that bit by bit the banker is gradually driven back to saying, 'What is your security? I cannot judge the prospects of your business. I know you from my experience to be both an honest and a clever man.' Both these attributes are desirable for bankers' customers. The personal knowledge of the client - I hope I do not over-generalize - is more likely to be obtained by the banker who sees his client at the golf club and notices that he does not ground his club in a bunker, than by a finance corporation which only sees him in the board room.

I think, however, that the laity should be aware, and more aware than they are, of the nicety of judgment which you require in threading your way through the maze of modern commercial trade, banking, insurance and finance, and making so few mistakes, to be able to say at the end, as I think you can say: 'We have safeguarded the public without strangling enterprise. We have not bound enterprise with pedantic chains, but have still left with them that flexibility which is necessary when they have to confront and solve the myriad problems which throng in upon them in 1953.' (Applause.)

A cordial vote of thanks was passed to Mr Lyttelton.

WEEKLY NOTES

Valuation of Shares for Estate Duty

In our issues of November 7th and 14th we briefly mentioned the appeal by petition before Mr Justice Danckwerts against the determination by the Inland Revenue that 43,698 £1 ordinary shares in John Holt & Co (Liverpool) Ltd were worth 25s per share on March 11th, 1948, when Mr R. L. Holt died. The value put forward by the trustees of a settlement to which the shares were subject was 17s 2d per share. Reading a reserved judgment last Wednesday, his lordship said that the evidence of expert witnesses tendered by the Inland Revenue was open to criticism in that it did not take full account of the fact that the high profits made by the company in several years before 1948 were made in the war and in the post-war inflationary periods. Moreover, this being a small minority holding, the hypothetical purchaser in 1948, postulated by the Finance Act, 1894, Section 7(5), would have had no prospect of being able to influence the policy of the company or of re-selling the shares free of the severe restrictions on transfer imposed by the articles. His lordship had come to the conclusion that the proper value was 19s per share and he gave judgment accordingly. He also awarded costs to the appellant, rejecting the Crown's submission that only three-quarters of the appellant's costs be allowed. Counsel for the Inland Revenue was refused leave to appeal to the Court of Appeal. It is, of course, still open to the Inland Revenue to apply to that Court for leave to appeal. We hope to discuss this case in more detail in a leading article next week.

Savoy Hotel Ltd

Last week we reported that the Board of Trade had agreed to investigate the ownership of preference and ordinary stock of Savoy Hotel Ltd which had recently changed hands. The Board have now announced that the application was made by not less than 200 members of the company under Section 172 (3) of the Companies Act, 1948, and that Mr J. B. Lindon, O.B.E., Q.C., has been appointed as Inspector for the purpose of determining

'the true persons who are or have been financially interested in or able to control or materially to influence the policy of the company, with particular reference to stock in which dealings have taken place on or after August 4th, 1953.'

Mr Lindon is to report on this matter in such manner as the Board direct. The publication of his report will be awaited with interest for it is almost certain to give guidance on matters of general concern in relation to company law.

Steel Pool and the Export Cartel

Anti-cartel sentiment has been pronounced within the High Authority set up under the Schuman Plan ever since its inception. Its views on price-fixing have all along been on the need for maximum rather than minimum levels. These views have been conveyed to the constituent concerns of the coal and steel community with some force from time to time.

Two weeks ago the issue flared up again when the vice-president of the High Authority called upon the

steel producers to dismantle their export cartel which was set up last May. The High Authority has let it be known that if the producers do not do so themselves the High Authority will act itself.

This week the High Authority has in fact taken the matter a stage further. It has called a meeting of the Advisory Committee for December 2nd. This procedure is necessary before the Authority can attempt to fix minimum and maximum prices for exported steel from the Schuman community. Consulting the Advisory Committee is an essential step for action of the kind contemplated, but the High Authority does not need to follow the views of the Committee once they are given. Those opinions are likely, however, to be interesting, for consumers, producers and labour are all represented on it.

The whole outcome hangs on the treaty under which the High Authority was set up. In addition to this controversy about export prices there already exists one about price-fixing in the domestic market. In the second year of its existence the High Authority is attacking on a wide front in its efforts to weld the diverse coal and steel interests of Western Europe into a homogeneous group.

Airlines versus Shipping Lines

Addressing the Glasgow Shipowners' and Shipbrokers' Benevolent Association this week, the President of the United Kingdom Chamber of Shipping discussed the growth of competition between ships and aircraft on the world's main routes. The remarks were especially significant in that they must constitute one of the first, if not the first, allusion from the representative of a major shipping organization to the possibility of severe competition between these two methods of transport.

Until comparatively recently the big shipping lines which take the cream of the sea-going passenger traffic inclined to the view that they need fear no acute competition from the air for a long time and that there would always be a large proportion of the public who would prefer to travel by sea. On Monday, however, Mr Anderson, the president of the Chamber of Shipping, pointed out that reductions in air fares were going hand in hand with demands for subsidies from airlines which was a form of competition that shipping was bound to consider unfair.

There is more to it than this point, of course. Those shipping companies with large passenger fleets (large at least in terms of capital invested in them) must sooner or later face the replacement of their vessels and clearly replacement costs are going to be astronomical for such vessels as the two 'Queens'. Modern aircraft are expensive enough to replace but they are not likely to present as severe a problem to public corporations as are the 'Queens' to a publicly-owned company like Cunard. But the large passenger ships will have to be replaced or the big shipping companies must re-think the whole of their building policy.

This week has seen a subject raised which is going

to be debated and argued about extensively between airlines and shipping lines over the next few years.

Record Steel Production

The steel industry is now within sight of its target of production for 1953. Figures released recently for October show output at an annual rate for the month of 18.46 million tons. With the prospect of a good level of output for November there seems every prospect of the industry reaching its target of 17.5 million tons for the year even when allowance is made for a decline in output during December.

Last month a new record was set up in pig-iron production as well as in steel. The month's output was at an annual rate of 11.5 million tons. This means that although pig-iron production is now buoyant it will be slightly slower than steel to reach its target set in the steel industry's development plan.

From the beginning of 1954 onwards, however, the rate of expansion of pig-iron capacity will become increasingly the crucial factor in raising steel production to the level of 21 million tons set for 1957. The second development plan for the industry throws the expansion of the industry's capacity increasingly on pig-iron over the next three years.

Industrial Production and Prosperity

The close of the summer season has seen the recovery of the official index of production from the low level which is always associated with summer holidays. The provisional figure for September which has been issued recently gives every promise of a high rate of industrial output in the fourth quarter of this year. At 125.6 the index compares with 115 in the same month of 1952 and with 121 for September 1951. The provisional calculation does not include such industries as chemicals, engineering and wool so it has to be treated with reserve.

The economy is now moving rapidly out of an era of shortage into one of plenty so far as the supply of raw materials is concerned. Under such conditions the official index of industrial production plays a less important part than it did as an indication of economic prosperity, encouraging as present figures may be. The index becomes more and more a useful indication of the recent past and less and less a reliable guide as to what is just round the corner.

At the moment the index is a token of industrial prosperity but a slightly less encouraging picture would be divulged by the order books of quite a large number of ship building and heavy engineering companies if they were available for publication, and it is by no means certain that the vehicle industry will be able to sustain its present high level of output. Commercial vehicle production has, of course, been falling for some time. It has to be remembered, too, that it is one thing to take encouragement from a high level of output; it is quite another to assume that such a maintained flow of goods and services will automatically find a market just because they have been produced.

FINANCE AND COMMERCE

Quieter and less active conditions have developed in stock-markets. Less optimistic appraisal of the export position and the dangers of another round of higher wage claims have prompted the development of profit-taking in a market which has enjoyed a steady rise for some months. Pressure to sell is light but for the present, investment support has been largely withdrawn.

Fishing Accounts

This week's reprint gives the consolidated portion of the accounts of Trawlers Grimsby Limited, whose industry has recently been in the forefront of the news. This annual publication is attractively presented. The front cover carries a graphic picture of a heavy sea coming in over a trawler's deck; inside is a delightful study of seagulls seen through a porthole; and on the back cover are scenes in port in the fish-sorting and weighing sheds. The accounts may be viewed in the light of a resolution to distribute one ordinary share for every two 5s stock units held, by way of a capitalization of £94,035 of general reserve to bring issued capital more into line with capital employed.

In his statement with the accounts, Mr J. Carl Ross, the chairman, draws attention to the effect of rising costs, which between 1948 and 1953 have increased by 50 per cent for the major items in distant water trawling. He instances fuel, gear, technical apparatus and certain crew expenses determined by factors outside the owners' control. As against the 50 per cent increase in costs, the price of cod, he says, rose by only 6 per cent.

In addition, he states, 'the continual rise in the cost of new tonnage is getting quite beyond all reasonable proportions and at the present time it is quite impossible to earn sufficient to cover interest charges and replacement costs on such vessels'.

Important Background

Mr Ross refers to 'much publicity' given recently to imports of Icelandic fish. He maintains that Iceland cannot produce cheaper fish than the British trawler fleet and that if there is some special reason for lowering prices because of Iceland wishing to break into the British market again, prices must rise later for purely economic reasons. The Icelandic industry, he maintains, cannot survive at prices below those at present ruling.

'It is perhaps of interest once again to state,' says Mr Ross, 'that the present ban on Icelandic caught fish arises purely because of the arbitrary manner in which that country has fixed a fishing limit seawards to the exclusion of our own fishermen who have been fishing in those waters for over fifty years.' Mr Ross might also have added that in the interests of the conservation of those fishing grounds, Icelandic

trawlers have, with the British vessels, also been excluded.

There is, in fact, a very important background to be considered in any consideration of the efforts of British trawler owners to keep Icelandic trawlers from British ports. The first point is the fifty-year commercial treaty of 1901 between Britain and Denmark which among other things defined the territorial waters of Iceland, then a Danish possession, as three miles from the coast—the 'three-mile limit'. In 1949, Iceland, then independent, announced that this definition of territorial waters would not be continued when the treaty finished in 1951. When that time came, the British Government asked for and was given deferment of action until Norway had settled a similar question at the International Court at The Hague.

TRAWLERS GRIMSBY LIMITED					
Consolidated Profit and Loss Account, Year to March 31st, 1953					
1952				£	£
£	Trading Profits of the Group including profits applicable to prior years of £20,178 (1952 £19,500)				243,563
277,337	Income from Trade Investments				3,774
1,690	Sundry Interest Receivable				529
26					
					247,866
279,053	Deduct				
	Interest payable:				
	5 per cent Loan Stock				12,500
12,500	Bank and Other Interest				7,015
4,407					19,515
	Provision for Depreciation				120,000
125,000	Directors' Emoluments:				
	For Services as Directors				1,000
1,000	Other Emoluments				13,644
13,663					14,644
	Auditors' Remuneration including Expenses				3,756
2,910	Provision for Taxation on Profits of the year:				
	Profits Tax				9,355
21,657	Income-tax				£58,423
44,313	Less Transfer from Initial Allowances Suspense Account				22,500
					35,923
					45,278
					203,193
225,450					
53,603	Net Profit of the Group				44,673
1,137	Less Net Profits of Subsidiary Companies attributable to Outside Shareholders				434
					44,239
52,466	Add Provisions no longer required				5,474
6,418					
	Net Profit attributable to Trawlers Grimsby Limited				49,713
58,884	Less Net Profit retained by Subsidiary Companies				9,442
28,563					
	Net Profit of Trawlers Grimsby Limited				40,271
30,321	Add Balance brought forward from previous year				42,782
43,113					
					83,053
73,434	Amount Available				
	Dealt with as follows:				
	Transfer to General Reserve				10,000
10,000	6 per cent Preference Dividend for year to date less tax				6,772
5,879	Interim Dividend of 5 per cent less tax				4,937
4,899	Proposed Final Dividend of 10 per cent less tax				10,344
9,874					32,053
30,652					
£42,782	Balance carried forward to next year				£51,000

NOTE
Reconciliation of Reserves of Subsidiaries

RECONCILIATION OF RESERVES OF SUBSIDIARIES			
£	Capital £	Revenue £	Total £
88,739	103,730	68,184	171,914
Add:			
Provisions of Subsidiary Companies in liquidation no longer required:			
Taxation	519	—	519
Reconditioning of Vessels	—	—	—
Net Profits Retained by Subsidiaries	—	9,442	9,442
Sundry Increases in Reserves	522	—	522
£171,914	£104,771	£77,626	£182,397

NOTE

Reconciliation of Reserves of Subsidiaries			
£	Balance as at March 31st, 1952	Provisions of Subsidiary Companies in liquidation no longer required:	
	Add	Taxation	
887,399			
32,585		Reconditioning of Vessels	
17,222		Net Profits Retained by Subsidiaries	
28,568		Sundry Increases in Reserves	
4,795			
£171,914			
	Capital	Revenue	Total
	£	£	£
	103,730	68,184	171,914
	519	—	519
	—	9,442	9,442
	522	—	522
	£104,771	£77,626	£182,397

Drawing the Line

Norway succeeded in a claim that her territorial waters should be defined by lines drawn from headland to headland with a minimum of four miles instead of three. Iceland now wants a similar concession. Britain is not prepared to consider the extension from three to four miles but while not rejecting the general principle of the 'straight-line' method, maintains that the lines have not been properly drawn.

Both sides are prepared to take the case to The Hague Court, Britain on the drawing of the lines and Iceland on that point and on the four-mile limit. But Iceland refuses to proceed to Court while British trawler owners continue to exclude Icelandic vessels from British ports. Thus the way to Court for a settlement of what is fundamentally an international dispute is blocked by the private-enterprise industry of one of the parties.

We recite these facts which present the case in a nutshell, because we feel that the 'true and fair view' of auditors' reports on accounts should extend in spirit to directors' reports, chairmen's statements, and other subject-matter which accompanies accounts.

Finance for Exports

Acting on the Chancellor of the Exchequer's suggestion, in his last Budget speech, that the question of

supplying adequate finance for exporters turns largely on the problem of making more widely known the financial facilities that already exist. The Credit Insurance Association Ltd has made a survey of the position. The findings are set down and discussed in *Finance for Exports*.

This survey covers the activities of the money market and the extent to which the Bank of England, the clearing banks, the overseas commercial banks and the merchant banks or accepting houses, cover the financial requirements of the exporter. It also deals with the facilities provided by the Export Credits Guarantee Department.

Broadly, the conclusion is reached that the survey confirms the Chancellor's suggestion and for the accountant who may be called upon for advice on the subject, *Finance for Exports* provides much useful background information.

Money Market

Applications for Treasury bills on November 20th totalled £374,480,000 and maintaining the bid at £99 9s 6d, the market obtained about 43 per cent of requirements. The average rate was reduced slightly to £2 1s 10.92d per cent and this week's offer is for £240 million. Corresponding maturities total £280 million.

REVIEWS

Studies in Management Techniques

by G. W. Briggs, A.C.W.A., A.C.A.A.

(Gee & Co (Publishers) Ltd, London. 21s net)
This useful survey of management theory and practice, starts by discussing the nature of management and describes in turn what is required of it and how it is enabled to meet these requirements. As an accountant himself, Mr Briggs naturally does not overlook the viewpoint of his profession; he devotes one of the six parts of his book to management tools and controls, in which there are chapters on budgeting and other control techniques.

Management has so many aspects (this perhaps accounts for its relatively late emergence as a distinct field of knowledge), that it is gratifying to find a volume which brings one up to date. Managers, but particularly those accountants who have close association with management, will find this volume most helpful in crystallizing their ideas about their work.

Inflation - Its Treatment in Accounts

by B. J. Davis, F.C.A.

(Gee & Co (Publishers) Ltd, London. 10s 6d net)

Many accountants throughout the business world are considering whether the traditional method of presenting accounts can be adjusted to take into account changing price levels. Mr B. J. Davis, F.C.A., has

boldly come forward with an original system of dealing with inflation in accounts based on accounting principles and contrasted with the methods of the historical cost and replacement value schools of thought.

Mr Davis does not approve of historical cost but he does approve of historical research and we are given long quotations from Mr Huskisson, M.P., who, in 1810, prepared a memorandum on 'the question concerning the depreciation of our currency stated and examined'. The British Association in 1890 also considered reports on a monetary standard. No action was taken, however, and in 1953 we are still groping for a solution to the problem of preparing balance sheets, all the items of which are likely to be composed of sterling representing different price levels.

Mr Davis gives a practical example of the system he advocates by taking a simple balance sheet at December 31st, 1952, prepared in a normal way, and converting it by a series of journal entries to another balance sheet in terms of '1952 sterling'. To simplify the illustration he takes only three price levels - 1914 sterling, treated as being the equivalent of £5 in 1952 sterling, and 1939 sterling treated as £3 in 1952 sterling.

The difficulties of this method are that:

- (a) it is doubtful whether the equivalents of £5, £3 or any other figure would be universally

accepted for different businesses and different industries; and

- (b) there is no argument for limiting these price changes to 1914 and 1939, or any other dates.

Mr Davis appreciates these points:

'One practical difficulty, and indeed a difficulty of fundamental importance, is to find the appropriate index numbers showing the variations in sterling. So far as can be ascertained no reliable index numbers have been prepared.'

It is significant that in the given balance sheet there are no debtors. We hesitate to contemplate the complications that would arise if the debt were not immediately payable. One notable change is clearly stated: the preference capital which in the normal balance sheet was £6,000, becomes £30,000 in 1952, so that the preference dividend is no longer based on £6,000 but £30,000. If £30,000 new preference capital were raised in 1952, the shareholders might presumably have to face the prospect of a dividend on, say, £20,000 in 1962.

Anyone studying this book should have by his side Mr W. H. Lawson's clear discussion of the problem.¹ It is easy to criticize Mr Davis but we must be grateful for this novel outlook on a difficult matter. We agree with him that if the community were in earnest it would not be impossible to prepare and use index numbers of sterling values. Whether accountants would welcome such index numbers is another matter.

Other People's Money

by Donald R. Cressey, Ph.D.

(The Free Press, Glencoe, Illinois. \$3.00)

The author calls his book 'a study in the social psychology of embezzlement'. He has set down the case histories, many of them obtained in personal interviews, of a large number of individuals convicted for fraud and has attempted to analyse their behaviour before, during and after committing the defalcations. He has noted the circumstances in their lives which may have induced them to embezzle money and has compared their conduct with that of other people in positions of trust who have had similar reasons for misappropriating funds but who, because of higher standards of integrity, have resisted the temptation.

Professor Cressey's evidence and findings make thoughtful reading but his conclusions are necessarily limited because the field of study which he has chosen is, unfortunately, vast and the highly individual circumstances of each case make generalizations on the subject difficult.

The Stock Exchange Official Year Book, 1953 Volume II

(Thomas Skinner & Co (Publishers) Ltd, London.
Vols. I and II, £7 net)

Volume II of *The Stock Exchange Official Year Book* completes the 1953 edition of this standard work of

reference to all securities quoted on the London and associated stock exchanges. This volume contains the two largest groups of companies, commercial, industrial, etc., and mines, while Volume I contains all the other groups of securities, including government securities, banks, breweries, insurance, iron and steel, and investment trusts.

Volume II includes the index to both volumes and the number of entries exceeds 26,000, including reference to many hundreds of controlled or subsidiary companies which are named in the notices of their parent companies. The new volume also gives a summary of the notices in the whole edition from which it will be found, *inter alia*, that the number of London quoted securities dealt with in the two volumes is nearly 10,000. In the 1953 edition there are about seventy-five new notices of companies and details of a dozen new government and corporation securities. The commercial and industrial companies are also classified in a separate index under 100 headings of products and services. A new feature this year is a list of the securities quoted on the Johannesburg Stock Exchange in which dealings are permitted in London.

The Register of Defunct and Other Companies

(Thomas Skinner & Co (Publishers) Ltd, London.
£1 10s net)

This book published at the same time as Vol. II of *The Stock Exchange Official Year Book*, contains the constantly accumulating information as to the demise or reconstitution of securities and companies which have passed out of the previous editions of that work. It is the only publication which records the effects of the nationalization schemes on the securities taken over, and as a record of 'defunct' securities is an indispensable time-saver for all who are engaged in dealing with deceased estates.

RECENT PUBLICATIONS

THE DENTIST'S HANDBOOK ON LAW AND ETHICS, by W. R. Tattersall, F.D.S., H.D.D.R.C.S. EDIN., L.D.S. U.S.T.A.N.D., and H. D. Barry, Barrister-at-Law, with a section on income-tax by W. Donald, C.A. xiv+328 pp. 8½×5½. 28s net. Eyre & Spottiswoode Ltd, London.

THE THIRD (CUMULATIVE) SUPPLEMENT TO DYMOND'S DEATH DUTIES, Eleventh Edition, Robert Dymond and Reginald K. Johns. xvii+129 pp. 9×6. 10s 6d net; main work and supplement, 75s net. The Solicitors' Law Society Ltd, London.

AN OUTLINE OF STATISTICS, Fourth Edition, by Samuel Hays, O.B.E., B.COM.(HONS.), F.I.S. vii + 289 pp. 7½×5. 10s 6d net. Longmans, Green & Co Ltd, London.

BUDGETARY CONTROL AND STANDARD COSTS, by J. A. Scott, C.A., F.C.W.A., A.M.I.I.A. x + 213 pp. 9×5½. 18s net. Sir Isaac Pitman & Sons Ltd, London.

TAX CASES REPORTED UNDER THE DIRECTION OF THE BOARD OF INLAND REVENUE, Vol. 34, Part 5. pp. 207-287. Part 6, pp. 288-336; Part 7, pp. 337-388. 9½×6. 1s 6d net each part. H.M.S.O., London.

THIRD SUPPLEMENT TO INCOME TAX, SUR-TAX AND PROFITS TAX, Thirteenth Edition, by E. Miles Taylor, F.C.A., F.S.A.A. 11 pp. 8½×5½. 1s 3d net. Textbooks Ltd, Harpenden, Herts.

¹ *The Accountant*, February 28th, 1953.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'The Sacred Cows of Taxation'

SIR, — Your contributor's delightful article entitled 'The sacred cows of taxation', in the issue of *The Accountant* of November 21st, 1953, will entertain many, I think. It is to be hoped that the Royal Commission's report will contain recommendation for the Board of Inland Revenue to be early canonized, that no man may be denied his democratic right to be 'higherred' and fired.

One point in your contributor's article is a little puzzling, however. He says:

'The Board of Inland Revenue have tried since early in the Second World War to get the Inspectors to limit their examinations to sample checks: with what success, the average practitioner can judge.'

If the Board of Inland Revenue has ceased to exercise effective control over its inspectorate, does this heavenly body presently revolve under the original impetus of its own inertia? Like the moon?

Yours faithfully,

Bromley, Kent. B. KENNETH FLETCHER.

[Mr Alun Grier Davies writes: Accustomed though I am to Celtic exuberance, I must confess that your correspondent's firecracker style baffles me completely. I do not even know whether I can attempt to answer his question, as I am not now on the Board of Inland Revenue's mailing list, and cannot therefore give any authoritative comment on their relationship with Her Majesty's Inspectors of Taxes. I feel, however, that the sturdy independence of the decentralized service is typified in a report made by Angus Fletcher, the Scottish Comptroller-General, to the Board of Inland Revenue in the middle of last century. After taunting the Board with having tried to exercise detailed supervision over Scotland, he said:

'... If I am charged with undue laxity, inasmuch as I have wholly repudiated the scalping knife, the hot iron, and even the fly blister, except when absolutely necessary, I answer that charge by an appeal to the present state of the collection of the direct taxes. . . . I have always recognized the truth of the proverb "*On prend plus de mouches avec du miel, qu'avec du vinaigre*" . . .'¹

If we had more of the sweetness and light exuded by the spirit of Angus Fletcher, there would be fewer stockbrokers shaking their fists at the Revenue from beyond the grave, and demanding that their executors bury them with their backs to Somerset House.]

SIR, — May I say how pleased I was to see Mr Alun Grier Davies' delightful and learned article in last week's issue. Is it too much to hope that the trumpets of Joshua have sounded the first blast about the walls of Jericho?

Mr Davies says:

¹ *A Hundred Years: The Board of Inland Revenue, 1849-1949*, by Wyn Griffith, (1949), published by the Board of Inland Revenue, at page 31.

'Traditionally, the Inland Revenue has had great powers in reserve to allow it to exercise, with due authority, the management of the taxes. It is time that the right to exercise these powers was subject to the light of reason. . . .'

May I suggest one small matter which, if tackled reasonably, would save a vast amount of administrative time, both to the Revenue and (more) to practitioners. An infinite weariness is the annual correspondence on repairs and renewals — capital versus revenue. 'The meticulous chasing of pennies', to quote Mr Davies again, is here carried to the point of lunacy, neither side really knowing how the taxpayer will be affected in the long run, whichever view prevails! Could we not have a sane, broad-minded statement of policy from the top so that Inspectors could be authorized to accept the auditors' report and rely on the undoubted duty he has under the Companies Act to draw attention to any major departure from a true and fair view of the profit or loss of the year? There is no doubt that a major error in classification between capital and revenue is something an auditor is bound to remark on, and there should be sufficient protection to the Revenue, without a long correspondence referring to well-known specimens of the sacred herd like *Laxorie v. C.I.R.* ([1952] 31 A.T.C., 327), the *Law Shipping* horror, and 'if a farmer replaces both wheels of his farm cart, is this capital or revenue expenditure?'

Sir, a few well-managed businesses in this country have excellent costing systems integrated with their financial accounts — too few, alas! These businesses analyse their pay-roll and stores issues very carefully and often they show separately in their accounts under the head of 'Maintenance' all wages and material applicable thereto. The old-fashioned businesses simply record stores under 'Purchases' and repair staff under 'Wages'.

The professional accountant who deals with the taxation affairs of both kinds of business is driven to the melancholy conclusion that 'the better you keep your records and the more detail you supply, the more correspondence you have with the Revenue'.

Yours faithfully,

London, EC2.

D. E. F. GREEN.

Taxation of Doctors: Danckwerts Award

SIR, — Your correspondents, 'C.A.' of October 24th, 1953, and 'W. A. H. S.' of November 14th, 1953, in any opinion, seem to have missed the point concerning the assessment on the Danckwerts award to doctors. In both cases, your correspondents have failed to distinguish between 'basis periods' and 'years of assessment'. Dealing with the figures set out in your issue of October 24th, income under

Danckwerts for 2½ years is spread over 3½ years of assessment. One might take any new business and perform a similar feat, e.g.:

First year's profits to December 31st, 1950	..	£1,000
Assessments: 1949-50 (one-quarter)	..	250
1950-51	..	1,000
1951-52	..	1,000
		<u>£2,250</u>

No, sir, to resolve 'C.A.'s' problem one must assume that the practice ceased on June 30th, 1952. Assessments then become 'actual', viz. £2,500. If it is argued that this did not happen, then one can only point out that a practice must cease some day and the following table will show where the fallacy lies.

Assuming the practice to cease December 31st, 1954, then the profits and assessments would be:

	Danck- Normal werts		Assessments	
	£	£		£
Profits, year to December 31st, 1950	2,000	1,000	1949-50	750
			1950-51	3,000
			1951-52	3,000
Profits, year to December 31st, 1951	2,000	1,000	1952-53	3,000
Profits, year to December 31st, 1952	2,500	500	1953-54	3,000
Profits, year to December 31st, 1953	3,000	-	-	-
Profits, year to December 31st, 1954	3,000	-	1954-55	2,250
	<u>£12,500</u>	<u>£2,500</u>		<u>£15,000</u>

The operative phrase concerning the assessments is 'at the rate of', and I trust your correspondents will agree.

Yours faithfully,
ARTURO.

SIR, - Your correspondent 'W. A. H. S.' (November 14th issue) states that:

'Unfortunately, the doctor who has commenced to practise since the inception of the health service on July 5th, 1948, cannot even attempt to have his first year's profit undisturbed by declining to accept that portion of the Danckwerts award which is applicable to that year. The award is essentially a lump-sum payment, spread back over the relevant accounting years by concession. Any reduction of the award, therefore, would none the less still affect that first year.'

It is understood, however, that the original remuneration under the Health Service was from the beginning purely provisional; was subject to continuous dispute and negotiation between the B.M.A. and the Ministry of Health; and was only, with the Danckwerts Award, finally agreed for the whole period.

In consequence, where the earnings basis obtains, the award is spread back to its correct period in accordance with the decision in the *Woolcombers*

case, and no question of a concession arises. The only 'concession' is that whereby a *cash basis* doctor may have his award spread back; but even here the Board of Inland Revenue's letter to the B.M.A. reads:

'... in view of the exceptional circumstances surrounding the award it would be reasonable to permit the cash basis to be modified to the extent that the back payments may be spread over the periods over which they are to be taken as having accrued.'

It is difficult to see how the Revenue could stretch this, even with a cash basis doctor, to spreading awards for other years proportionately over a year where nothing could be 'taken as having accrued' (having been refused). With an earnings doctor, where no concession is involved, it is even more difficult to see how the *Woolcombers* decision could be similarly interpreted.

Yours faithfully,
JEFFERY ENGLISH.

Bournemouth.

A Proposed National Association of Practising Accountants

SIR, - We refer to our letter of July 27th last, sent to the Institute of Chartered Accountants seeking its interest in our proposals and which you published on August 15th, but you countered our letter by a leading article, couched in ridicule, as a form of defence (quite unnecessary) of the scope of excellent work carried out by the recognized bodies. Now, in response to your recent consent, we make the following very brief observations.

In this leader, more than one reference was made to loyalty although, in fact, the loyalty of those who support the Association will be beyond challenge. And so, if our endeavour to provide further facilities for practitioners to give and receive new assistance in practice matters is to be regarded as disloyalty, then ordinary words have lost their meaning. As loyal members of the profession and of our respective bodies, we have the utmost admiration for these bodies and their achievements and, as the approaches and prospective scope of the Association have shown, we are mindful of their welfare and prerogatives.

Hence, the following further specimen details from our programme bear in mind your criticisms:

1. *Registration.* There would have been no need for us to have considered any action under this head if there was a clear indication that a majority of all practising accountants desired to abandon registration: our inquiries indicate the contrary. The issue, in its simplest terms, appears to be:

(a) The bodies making up the Co-ordinating Committee have failed to secure registration, and that fact, together with the cause of abandonment, are not in doubt.

(b) We appreciate the need for this complex problem to be tackled by a body like ours and therefore on a different scale, and from different objectives, than so far conceived.

2. *Representing the unified interests of practitioners,*

and the protection of the interests of practising accountants generally. We must reiterate that nowhere did we suggest '... detriment to the profession because of incompetence. . .'. There are fields of activity, however, not covered by the qualifying bodies in which our Association, unrestricted by sectional qualifying interests and academic duties, can undertake urgently needed work for the benefit of the practising profession as a whole, e.g. under this object:

- (a) The appointment of a public relations officer to ensure, *inter alia*, a better public appreciation of practising accountants and the services which they render to the community.
- (b) To limit the scope of the certifying of accounts at present undertaken by non-accountants.
- (c) Protecting practising accountants' business interests.

3. *Information on the conduct of practice.* We regret that we cannot agree with your contention that it would be impracticable to supply to practising accountants any services in addition to those rendered by the existing bodies, e.g. summer schools, conferences, etc., however enjoyable for the fortunate few these functions prove to be. Also, while the recommendations of the Institute on accounting principles are excellent in their way, there is a further field for us to advise practitioners on them in their detailed applications.

Under this head we will include a full confidential service on practice organization and client-service matters, canalizing queries and thereby enhancing facilities of experts to advise, and giving full backing on useful rulings.

4. *Guidance on fees.* While appreciating the advantage of support of the recognized bodies, we suggest that before that stage can be reached a need exists for guidance, and that practising accountants are entitled to look to a professional association, such as ours, for such guidance. This will entail our ascertaining suitable principles and creating a public understanding of accountants' fees.

5. *To obtain benefits on practice costs for members.* Our Association proposes to aid the efforts of members to reduce their practice costs by a variety of means (such as pooling arrangements to absorb idle staff due to seasonal causes).

We are confident that the combined effect of our work under this and heads (3) and (4) will result in lower charges to clients and an appreciable growth in net incomes to practitioners.

pline, and besides, arrangements must be made, eventually for taking over the work of those unskilled and ineligible for registration. (The word 'unskilled' replaces the word 'unqualified' which appeared in our letter of July 27th.)

7. *To organize pension schemes for the benefit of practitioners and their staffs.* We regard of greater importance the promotion of a special body for unified schemes *now* (rather than sectional by accountancy qualifications) to fit the limited pocket of the average practitioner and his staff (and also encourage recruitment of accountancy staff particularly to smaller firms).

General. The five named promoters of the Association have an average of thirty-one years' accountancy practice service and believe that by the future work of the Association the individual independence, technical eminence and the academic scope of the present bodies will undoubtedly be enhanced. Much of the data we alone can gather and collate can become corner-stones by which practitioners, researchers and examiners can achieve their respective objectives in better accord with the developing needs of practice, consequently your practitioner readers can have every confidence in becoming our members.

Yours faithfully,

For the Promoters of
THE NATIONAL ASSOCIATION OF
PRACTISING ACCOUNTANTS
R. SPROULL (Senior), C.A.

28 Great Queen Street,
London, WC2.

[If our leader appeared to our correspondent to be 'couched in ridicule' (the words are his) the explanation would seem to lie in the nature of the proposals on which we were commenting. We approached our editorial responsibilities with no feeling that here was a laughing matter. On the contrary, we consider our leader was sober comment on the proposals. Any reader who is sufficiently interested is invited to read it again. The letter now received does not seem to contain anything calling for further comment, except on the question of 'loyalty' about which the remarks in our leader were as follows:

"They [the promoters] would have all public accountants - including those who are not members of recognized bodies - join together in one association with the primary object of promoting legislation for registration. Do the promoters seriously believe that practising members of recognized bodies would be so disloyal and so heedless of their own interests as to act through such a polygenetic association, on so fundamental a subject as registra-

Accounting Research into Retail Trade

SIR, - I quite agree with Mr D. M. Milstone's letter in *The Accountant* of October 31st, 1953. The retail trade group of the Office Management Association have for some time felt that the costing, budgetary control and management techniques built up in the manufacturing industry could, likewise, be applied to the retail trade, and it is for this reason that they are at present conducting a series of talks and discussions on the theme of management accounting as applied to the retail trade.

This, of course, is only a beginning, for as Mr Milstone points out, 'here is a field for research as yet almost untouched'. However, if Mr Milstone, or any other of your readers, are interested in these talks, I shall be pleased to let them have further information.

Yours faithfully,

J. FOX,

Hon. Secretary.

RETAIL TRADE GROUP,

London, W1. OFFICE MANAGEMENT ASSOCIATION

Losing a Client

SIR, - In the issue of *The Accountant* of November 14th, you state in a footnote to a letter, 'we can think of no reason why the incoming auditor should compensate the outgoing auditor'. I think that this view should be challenged. One reason is that when practices are sold there is a payment between the incoming and the outgoing auditor based on the audits taken over, and I think that this system could very well be extended. Another reason why the incoming auditor should compensate the outgoing is that thereby unprofessional conduct in the seeking of audits would be greatly reduced. I say this with feeling, because in recent years I have suffered the loss of audits where the reason for the changes has apparently been that the clients considered my principles in the settlement of their income-tax affairs too strict, a view which was, I believe, encouraged by the incoming auditor.

I think a very good case exists for the payment of compensation by the incoming to the outgoing auditor in *all* cases. Since we buy and sell audits, should there be such a difference between a *sale* and any other change? The outgoing auditor is probably not at fault in the majority of cases of changes for personal reasons.

As things are at present, we small practitioners are continually losing our biggest clients by sales to larger units. The auditor for the larger unit is usually appointed auditor of the company taken over and compensation is rarely paid. It is almost always the small practitioner who is the loser in these cases, and his goodwill is thereby reduced, to the benefit of the incoming auditor.

What are other readers' views on this subject?

Yours faithfully,

WEST RIDING.

[We wish to dissociate ourselves from our correspondent's views. The footnote to which he refers related

to a letter commenting upon a leading article in our issue of October 24th. In that article we said:

'Where a client, for good reason, desires an immediate change by voluntary resignation, the alternatives to resignation may be continuance until the next accounts are presented, or precipitate removal accompanied by the risk of action in the Courts. If the auditor facilitates the change by voluntary resignation, it would not be unreasonable, in some circumstances, to expect some voluntary financial compensation. Such an expectation is unlikely to be fulfilled if the shareholders, with or without valid reasons, have lost confidence in the auditor. But it would be a reasonable expectation where an audit has been held for many years and the only reason for the change is the desire of a new controlling shareholder to use the services of the auditor of other companies under his control.'

We cannot see what connection there is between such circumstances and the buying and selling of a practice, since the essence of the latter transaction is the taking over of clients who would otherwise continue to use the services of the selling practitioner. Moreover, our leading article made it clear that we were not suggesting that the auditor should resign in circumstances such as those suggested at the end of the first paragraph of our correspondent's letter. We find obnoxious the suggestion that if an incoming auditor were obliged to compensate the outgoing auditor 'unprofessional conduct in the seeking of audits would be greatly reduced'. If there has been such conduct by a member of a recognized body the proper course is to make a complaint to that body. If the unprofessional conduct was by a person not subject to such disciplinary control, the idea of 'squaring' matters by voluntary payment to the outgoing auditor seems repulsive to us. - Editor.]

SIR, - In addition to the considerations mentioned in your Weekly Notes of November 21st, there is one other aspect of this matter which is not without importance.

Unless the new shareholder controls 100 per cent of the share capital it is at least doubtful whether an auditor would be justified in resigning without agreement of the minority shareholders.

In one case within my knowledge where an auditor resigned during the financial year at the request of a new majority shareholder the minority shareholders complained that he was guilty of neglecting their interests by failing to carry out his statutory duty of auditing the accounts for the year in respect of which he had been appointed. If, therefore, a change in such circumstances is contemplated it would seem to be desirable, in the absence of unanimity on the part of the shareholders, for the auditor to complete the year's audit and then to withdraw.

Yours faithfully,

London, EC2.

R. KETTLE.

[The remarks on resignation in the leading article in our issue of October 24th were restricted to circumstances where no ulterior motives are involved. We agree with our correspondent that the auditor should await removal at the next annual general meeting, rather than resign, if, for *any* reason, the shareholders are not unanimous. - Editor.]

ESTATE DUTY: REVIEW OF ANOMALIES—I

MEMORANDUM FOR THE BOARD OF INLAND REVENUE

Submitted by the Council of
The Institute of Chartered Accountants in England and Wales

INTRODUCTION

(1) This memorandum is submitted in response to a letter dated July 3rd, 1953, from the Board of Inland Revenue in which the Board stated that it would be glad to receive any information or suggestions about estate duty anomalies, particularly in regard to Section 55 of the Finance Act, 1940, which The Institute of Chartered Accountants may wish to offer. The Board's letter refers to the debate in the House of Commons on June 23rd, 1953, on the incidence of estate duty on family businesses, when the Economic Secretary to the Treasury announced that the Chancellor of the Exchequer had started a review of anomalies arising under estate duty law.

(2) The first part of this memorandum deals with certain fundamental defects in estate duty law as a whole, to which the Council has already drawn the attention of a previous Chancellor. It is from these defects that much of the difficulty arises in relation to family businesses. The second part of the memorandum deals with the legislation relating specifically to family companies. This legislation was the subject of representations by the Council in conjunction with the Law Society during 1943 and 1944 and again in 1950.

(3) In preparing this memorandum, information and suggestions have been obtained from members of the Institute who may be regarded as representative of members throughout England and Wales.

FUNDAMENTAL DEFECTS IN ESTATE DUTY LAW

(4) Defects in any form of tax are not of practical significance where the rate of tax is low. Estate duty, however, has in recent years been raised to extremely high rates. Even for a relatively small estate of about £31,000 the rate is 21 per cent and it rises to 60 per cent at £200,000 and to 80 per cent at £1 million and upwards. At such rates as these there is no room for serious defects. Unlike sur-tax (where the income in each step of the scale bears its own rate) the rate of estate duty on the whole estate is governed by the aggregate value of the estate. This basis carries the additional disadvantage to the estate of a 100 per cent charge on considerable amounts in the marginal areas.

(5) It is useful to bear in mind two of the canons laid down nearly 200 years ago by Adam Smith, against both of which the present estate duty law is a serious offender. The two canons are:

- (a) That the tax each is bound to pay ought to be certain and not arbitrary and that there should be no doubt as to the time of payment, the manner of payment and the quantity to be paid.
- (b) That every tax should be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.

(6) The features of the present estate duty law which offend against these canons of Adam Smith are:

- (a) The principle of valuing the estate on a hypothetical basis as on the date of death, irrespective of what may become available to the personal representatives.
- (b) The requirement to pay the estate duty in full (except on realty) before probate will be granted.

These two features are dealt with below. They represent fundamental defects, the seriousness of which has become apparent only with the steep rises in rates of estate duty, combined with rates of income-tax and sur-tax which render virtually impossible the accumulation out of income of private personal capital (as distinct from private capital employed in a business).

Valuation as on the Date of Death

(7) For estate duty purposes, assets have to be valued at the price which, in the opinion of the Commissioners, the property would fetch if sold in the open market at the time of the death of the deceased. This is laid down by Section 7 (5) of the Finance Act, 1894, which is still the basic legislation. The Courts have held that the valuation must assume a willing buyer and a willing seller. Moreover, it is specifically provided in Section 60 (2) of the Finance (1909-10) Act, 1910, that no reduction in the valuation is to be made on the assumption that the whole property is to be placed on the market at one and the same time; if, therefore, the deceased held a large block of shares, no reduction in valuation is permitted in order to take into account the fact that if all the shares were placed on the market at one and the same time the fact of doing so would itself depress their realizable value. Thus, the valuation rests on the opinion of the Commissioners, who are required to assume as on the date of death an open market (which will often not exist) and a willing buyer (who may not be forthcoming) and they are required to arrive in this way at a hypothetical price at the time of death, irrespective of the actual price at which the property may be sold after death in order to pay the duty. Such a method of valuation is entirely arbitrary and ought no longer to be tolerated when the duty involved is as high as that now imposed.

(8) If Parliament considers that rates ranging up to 80 per cent are appropriate, then the basis of computing the value of the estate ought to be such as to ensure that the amount taken away is in fact the prescribed portion of what would otherwise go to the beneficiaries and not a percentage of what might have gone to them in entirely hypothetical circumstances.

(9) Even where an estate consists only of cash and readily realizable investments it is possible for the sum eventually realized in the open market, even within a short period after the death, to be substantially different from the value for duty purposes as on the date of death. A sudden fall in the value of investments (which is by no means a remote possibility) can result

in the proceeds of realization being so far below the probate valuation as to render the estate insolvent. This injustice was aggravated by the Finance Act, 1949, when legacy duty was abolished and merged with the increased rates of estate duty imposed by that Act. Previously, legacy duty was in many cases charged on realized values and levied at the time of distribution or ascertainment; whereas in its new form it became part of the estate duty based on a hypothetical value.

(10) Where an estate consists mainly of a business, or of shares in a private company carrying on a business, the hypothetical considerations upon which the valuation must be based become even more unrealistic and potentially dangerous. If shares are involved the Courts have held that the valuation must ignore binding provisions in the articles as to the persons to whom the shares must be offered and the manner of arriving at the sale price, except that these considerations are, in accordance with the House of Lords decision in *Commissioners of Inland Revenue v. Crossman*, to be taken into account on the footing that the hypothetical purchaser of the shares would have regard to the restrictions on their subsequent disposal, in determining the price he would be prepared to pay. Where a controlling interest is involved the deceased's family will usually wish to avoid a sale if possible, so that the conception of a sale price is itself unreal. But even in computing a hypothetical sale price the law requires the assumption of an open market, which seldom exists for a private business. If a sale should in fact become necessary the only 'willing buyer' may be a person willing to buy at a bargain price discounted heavily for the restricted market or it may be that the shares have to be sold at a price fixed by the articles of the company. The sale price may be well below the value arrived at under the estate duty legislation but this would not disturb that valuation. In any event the value of a business may be affected materially by trade or political developments shortly after the death and before it is practicable to dispose of the business, but the law does not allow these to be taken into consideration.

(11) During the passage of the Finance Bill in 1949, the Council of the Institute made representations to the then Chancellor of the Exchequer to the effect that legislation should be introduced whereby estate duty on assets realized within one year after death (a period which could be extended if the Commissioners were satisfied that there had been no undue delay) would be calculated on the amounts realized, after deducting expenses of realization, instead of on theoretical values as on the date of death. A similar submission is made in paragraph (13) below.

(12) Reference is made in the preceding paragraph to the deduction of expenses of realization. With certain special exceptions relating to timber and to objects of national or historical interest, it is not at present permissible for estate duty purposes to claim any deductions for expenses incurred in realizing an estate; nor is it permissible to claim deductions for expenses incurred in valuing an estate. Realization of any property involves expense and in all but the simplest estates considerable expenditure has often to be incurred in legal and accountancy charges before values are settled with the Estate Duty Office. This may not have been any great hardship at a time when the rates of estate duty were low, but rates

are now high and it is unjust that the beneficiaries should have to bear the duty on such expenses out of the rest of the estate.

SUBMISSION

(13) *The estate duty legislation should be amended in the following respects:*

- (a) *The proceeds of realization, after deducting expenses of realization, of assets realized within one year after death should be substituted for the probate values of those assets and the duty adjusted accordingly.*
- (b) *Deductions should be allowed for expenses incurred in settling the value of the estate for duty purposes.*
- (c) *Subsection (2) of Section 60 of the Finance (1909-10) Act, 1910, other than the proviso thereto, should be repealed, thereby removing the specific provision that no reduction in valuation is to be made on the assumption that the whole property is to be placed on the market at one and the same time. The repeal of this provision would leave the matter open to be settled on its merits in each case.*

Payment of Duty before Probate

(14) During the passage of the Finance Bill in 1949 the Council pointed out to the then Chancellor of the Exchequer that it is frequently necessary to realize a substantial part of a deceased's estate in order to meet the duty payable, but realization cannot be effected until probate has been granted and probate will not be granted until estate duty on personalty has been paid. In consequence, executors must have recourse to temporary borrowing and assume a personal liability to repay. The Council suggested to the then Chancellor that legislation should be introduced whereby probate would be granted on payment of a deposit of 25 per cent of the duty on personalty, the balance to be paid within twelve months or, preferably, in half-yearly instalments spread over eight years, that being the period already adopted for the payment of duty on realty. The Council now considers that a period of eight years is perhaps too long for personalty and accordingly a period of four years is suggested in paragraph (17) below.

(15) The problem of finding the money to pay the duty is not serious where an estate consists mainly of cash or readily realizable investments, but it is extremely serious where, as is frequently the case, the bulk of an estate consists of a business or shares in a private company carrying on a business. For such an estate the position can fairly be compared with an estate consisting largely of realty. Estate duty law has long recognized that personal representatives need facilities for payment by instalments over a period of years if they are to have any hope of paying the duty on realty without disposing of the land itself. (Even this option is not now effective in the case of very large estates.) Where the main asset is a business, or shares in a private company, the duty thereon can be found only by realizing the business or selling shares, or by raising a substantial loan, or by introducing outside capital into the business. All these courses are undesirable from the point of view of the beneficiaries and of the importance to the national economy of the continuance of family businesses.

(16) It must be borne in mind that under the present

estate duty law the problem of finding the money to pay the duty is aggravated by the arbitrary manner in which the valuation for duty purposes is arrived at. This has been dealt with in paragraphs (7) to (13), from which it will be apparent that the amount on which the duty on personalty is levied (and which under present law must be paid in full in order to obtain probate) may differ greatly from what becomes available in the hands of personal representatives.

SUBMISSION

(17) *The estate duty legislation should be amended in the following respects:*

- (a) *Probate should be granted on payment of a deposit of, say, 25 per cent of the estimated duty on personalty.*
- (b) *The balance of the duty on personalty would be payable within six months after the date of granting probate, unless the personal representatives exercise the option referred to in (c) below.*
- (c) *The duty in respect of the personalty referred to below could, at the option of the personal representatives, be paid by instalments over a period of years, for example by half-yearly instalments over four years; provided that on realization of any of the property concerned the balance of duty relating thereto, would become payable in full. The personalty to which this sub-paragraph refers is personalty consisting of the ownership of a business, or a share in a partnership business, or shares in a company which is carrying on a business and was at the date of death under the control of not more than five persons (as defined for the purpose of assessment of a company to sur-tax under Section 245, Income Tax Act, 1952) or which, though not so controlled, is the subject of a charge under Section 46 of the Finance Act, 1940. A business for this purpose could be defined as a trade or business assessable for income-tax purposes under Case I or Case II of Schedule D or, in the case of a holding company, the business of co-ordinating the administration of a group of two or more companies each of which is under its control and exists mainly for the purpose of carrying on a trade or business so assessable.*

FAMILY BUSINESSES

Finance Act, 1940

(18) For reasons which will be evident from the first part of this memorandum, the estates which usually encounter the most difficulty – and indeed hardship – are those in which the main asset is a family business or shares in a private company carrying on a business. Something would be done to alleviate the position if the Council's submissions regarding valuation and payment were adopted. More would of course be done if Parliament saw fit to modify the extremely high rates of duty, or to adopt the sur-tax scale system so that successive steps in the amount of the estate would each bear their own rate of duty.

(19) Family companies are however affected also by the special provisions of the Finance Act, 1940, as amended in minor respects by subsequent Acts.

There is no doubt that these provisions were directed primarily against the avoidance of duty. There is also no doubt that they can, even during the lifetime of a proprietor, severely handicap businesses whose proprietors have never thought of avoiding estate duty. When provisions relating to family companies were introduced by the Finance Act, 1930 (to prevent the avoidance of duty by schemes designed to remove property from the scope of estate duty on the death of a person, whilst at the same time leaving that person with the practical enjoyment of the property or the income during his life), the provisions did not apply to companies carrying on industrial and manufacturing businesses. The 1930 provisions were superseded by Sections 46 to 59 of the Finance Act, 1940, which passed through the House of Commons with virtually no debate at the time of the evacuation from Dunkirk. Industrial and manufacturing businesses were not excluded from the scope of the 1940 provisions. These provisions are very complicated and they are weighted heavily against the taxpayer. They are drawn so widely as to apply to numerous companies where there was no intention to avoid duty.

(20) The 1940 provisions are so complex that it is doubtful whether some of them are really understood even now. In the *St Aubyn* case in the House of Lords, the Lord Chancellor made the following remarks:

'The alternative claim which arises under Finance Act, 1940, Section 46, must now be considered. It involves the consideration of provisions which are, I think, of unrivalled complexity and difficulty and couched in language so tortuous and obscure that I am tempted to reject them as meaningless.'

In the same case Lord Radcliffe observed:

'The prayer of Ajax¹ – 'Εν δὲ Φάει καὶ Ὀδυσσεύ – has been heard before in your lordships' House but I think its appeal is even stronger when obscurity is created by deliberate legislation than when it arises from the less wilful confusions of the common law.'

(21) It is against this background of obscurity and complexity that the difficult task of agreeing substantial liabilities to estate duty has to be conducted.

(22) In 1943 and 1944 (when certain amending provisions were being introduced to remedy defects in the 1940 provisions) representatives of the Council together with representatives of the Law Society had discussions with the Board of Inland Revenue, during which it was stated on behalf of the Inland Revenue that they would apply the provisions in a reasonable manner. This was in itself a recognition of the potential injustices inherent in the provisions and is evidence of the highly unsatisfactory nature of the present law. A memorandum on the discussions was published in *The Accountant Tax Supplement* in July 1944, with the approval of the Board of Inland Revenue. A copy is annexed to this memorandum as an indication of some of the problems which, even so soon after the enactment of the 1940 provisions were exercising the minds of the Council of the Institute and the Council of the Law Society.

(23) The 1940 provisions can be classified broadly into three main types:

¹ Pope's translation, *Iliad* XVII, line 728:

'Oh King! Oh Father! Hear my humble prayer
Dispel this cloud, the light of Heaven restore,
Give me to see and Ajax asks no more.
If Greece must perish, we Thy will obey
But let us perish in the light of day.'

- (a) Section 46 cases.
- (b) Section 55 cases.
- (c) Section 43 cases and possibly others.

Section 46 cases and Section 55 cases are dealt with separately below. Section 43 relates to life interests and there are no matters with which the Council wishes to deal in this memorandum, though it must not be assumed that Section 43 is fully understood or that it does not contain anomalies which may become evident from time to time in particular estates. It may be that Section 56 provides a fourth type of case but the Council's reluctance to deal with this section can best be explained by reference to the statement in the Court of Appeal in the *St Aubyn* case that the terms of Section 56 (2) demand 'a feat of imagination by no means easy to perform but . . . effect must . . . be given to the hypothesis which it enjoins, however unreal and remote from the actual facts of the case the process may appear'.

(24) In the paragraphs below dealing with Section 46 and Section 55, the Council has endeavoured to set out shortly the general purport of the two sections. It must, however, be understood that these sections are incapable of accurate summarization and they must in any event be read in conjunction with various definition sections.

Section 46

(25) Section 46 applies to a company under the control of not more than five persons (as now defined for the purpose of assessment of a company to sur-tax under Section 245, Income Tax Act, 1952) at any time between the date of a transfer of property to the company and the date of death of the transferor. It is immaterial by how many persons the company was controlled at the date of death; for example, companies whose shares are quoted on the Stock Exchange, and whose names are household words, are capable of falling within the provisions of Section 46 because of the manner in which the business was originally founded many years ago.

(26) The effect of Section 46 is that a proportion of a company's assets is deemed to pass on the death of a person who:

(a) had made a 'transfer' of property to the company at any time (for example 50 years before death); and

(b) had, or could have received, 'benefits' from the company during the five years prior to his death. The definitions of 'transfer' and 'benefits' are very wide. As a result of the Finance Act, 1952, a 'transfer' now includes a cash subscription for shares, even the subscription for a single share by a signatory to the memorandum of association.

(27) Where Section 46 applies the procedure is to ascertain:

- (a) The income of the company, computed on income-tax principles, for the five accounting years prior to the death.
- (b) The income or other financial advantage which during the said five years the deceased received or might have received, these being 'benefits'. Benefits which the deceased 'might have received' are to be determined on the basis of the deceased exercising his powers to his 'greatest financial advantage'.

(c) The value of the company's net assets.

The proportion of the net assets deemed to pass on

the death is then calculated by the fraction:

Deceased's benefits

Company Income

(28) The proportion of assets deemed to pass on the death is thus governed by the relation of the deceased's 'benefits' to the company's income. The method of computing the 'benefits' (see (b) above) can produce a result which is wholly unrealistic in relation to the benefits actually enjoyed by the deceased; indeed the 'greatest financial advantage' assumption could, in certain circumstances, result in the 'benefits' being the whole income of the company so that the whole of the assets would be deemed to pass. The relation between the 'benefits' and the company's income can also be affected by the incidence of capital allowances for taxation purposes. It will therefore be evident that, because of the method of computing 'benefits', the proportion of the company's assets deemed to pass may be greatly in excess of the proportion of the company's capital which the deceased held at the date of death or at any time during the five years prior to death.

(29) Where a valuation proceeds under Section 46, part of the duty is borne by the deceased's estate and part by the company without any right of recourse to the estate. This can give rise to considerable difficulty where it is desired to dispose of shares in a company. The purchaser naturally wishes to know the amount of any liability which the company may have to meet by way of estate duty on the subsequent death of the vendor. This is a calculation which it is not practicable to make. One of the imponderables is that latitude exists in the application of the section and it is therefore never possible to know whether the Inland Revenue will proceed under the section. Another is that even if the section is applied the amount of duty depends upon the income of the company and the 'benefits' of the deceased in the five years preceding the death, so that without the gift of prophesy, the calculation cannot be made before the death. The result is to make the intending purchaser unwilling to proceed, or to enable him to buy at a price reduced by an amount of duty which the company may never be called upon to pay, or to make it necessary for the vendor to give an indemnity. If such an indemnity is given and on the vendor's subsequent death the Inland Revenue proceed under Section 46, the indemnity could have serious repercussions on the dependants of the deceased because the assets deemed to pass may be greatly in excess of any interest in the company actually passing on the death (see preceding paragraph).

(30) The difficulty referred to in the preceding paragraph was the subject of representations by letter dated January 3rd, 1950, to the Chairman of the Board of Inland Revenue by the then Presidents of the Institute and the Law Society. The suggestion put to the Chairman of the Board was that an intending vendor of shares in a 'controlled company' should be able, on putting the relevant facts regarding 'benefits' before the Estate Duty Office, to obtain an assurance that provided the facts remain substantially unchanged there would be no claim on the death of the transferor to estate duty on the whole or any part of the assets of the company; or if the Estate Duty Office came to the conclusion that there probably would be a claim, it should be possible to state what proportion of the

assets of the company would be subject to the claim. The Chairman of the Board replied by letter dated February 13th, 1950, stating that the Board could not see its way to adopting the suggestion. The Chairman's letter included the following statements:

'The principal relevant factors for the purposes of the Act are the benefits accruing to the deceased and the net income of the company during the five accounting years preceding the death. In effect, therefore, you are asking us to give assurances about estate duty liability by reference to events of which some or all are in the future. We could not contemplate doing this. You draw an analogy with the sur-tax position where the Special Commissioners can be required to state definitely whether a direction will be issued under Section 21 of the Finance Act, 1922. The position there however is essentially different; all the events are in the past and all the facts necessary to a decision are known.'

(31) The Council considers that the foregoing observations from the Chairman of the Board serve to emphasize the difficulty of an intending vendor. They emphasize also the unsatisfactory nature of Section 46, bearing in mind that it can apply to many companies where there has been no attempt to avoid estate duty.

(32) In practice the application of Section 46 is rare. This may in part be accounted for by the fact that the Inland Revenue rightly regard the section as being an anti-avoidance provision and therefore

refrain from proceeding under the section in cases where there is no evidence of attempt to avoid. It is also due to the fact that the section is not operative if a higher valuation is given by the method laid down by Section 7 (5), Finance Act, 1894, or by Section 55, Finance Act, 1940.

SUBMISSIONS

(33) *Section 46 of the Finance Act, 1940, should be amended so that it would not be applicable unless in the opinion of the Commissioners of Inland Revenue (subject to a right of appeal to the Courts) there is evidence of a deliberate attempt or contrivance to avoid duty.*

(34) *If the submission in paragraph (33) is not adopted, Section 46 of the Finance Act, 1940, should be amended so that an intending vendor of shares would be able, on putting the relevant facts before the Estate Duty Office, to require the Estate Duty Office to give an assurance that provided the facts remain substantially unchanged there would be no claim on the death of the transferor to estate duty on the whole or any part of the assets of the company or, as the case may be, to state that there probably would be a claim and to indicate, on the basis of the facts then known, the proportion of the assets of the company which would be subject to the claim.*

(To be concluded.)

NOTES AND NOTICES

Personal

MESSRS SIMON L. LEWIS & Co, Chartered Accountants, announce that as from November 11th they have removed their offices from 4 Broad Street Place, London, EC2, to 92 Portland Place, London, W1. Telephone: Langham 5622/3.

MESSRS PARKER, EDWARDS & Co, of Whitehaven, Cumberland, announce that they have removed their offices to 20 Lowther Street, Whitehaven.

MESSRS INGHAM & Co, Chartered Accountants, of 202 Stanley Road, Bootle, Liverpool, 20, announce that as from December 1st next, they are removing their office to 482 Stanley Road, Bootle, Liverpool, 20.

MESSRS DUNN, CAREY & Co, and Messrs CAMPION PYNE & Co, Chartered Accountants, who have been associated for the past four years, announce that they have now amalgamated their practices and have taken into partnership Mr JOHN BOUDEWYN SELIER, B.COM., A.C.A. The new firm will be carried on under the style of DUNN, CAREY, CAMPION PYNE & Co, at 12 Buckingham Street, Strand, London, WC2. Telephone: Trafalgar 2155. The partners in the new firm are Messrs. W. H. B. CAREY, B.SC.(ECON.), F.C.A., J. C. PYNE, A.C.A., and J. B. SELIER, B.COM., A.C.A.

Professional Note

Mr James T. Dowling, C.A., a partner in the firm of Thomson McLintock & Co, Chartered Accountants, has joined the board of The Debenture Corporation Ltd.

Inspector of Foreign Dividends

CHANGE OF ADDRESS

The Board of Inland Revenue has announced that as from December 14th, 1953, the address of the City office of the Inspector of Foreign Dividends will be: Room 423, Fourth Floor, City Gate House (East Entrance), 39-45 Finsbury Square, London, EC2. The telephone number will be Monarch 2152.

Insurance Scheme for Accountants

In the course of his address at a special general meeting of members of The Institute of Chartered Accountants of Scotland held in Glasgow on September 18th, reported in the November issue of *The Accountants' Magazine*, the President, Mr J. L. Somerville, F.R.S.E., said:

'... we have arranged with the Scottish Nuffield Provident Society for the formation of an Institute Group under that scheme. One of the advantages of joining the Group is a saving of 20 per cent in the normal subscription that would be payable if one joined the Provident Society as an individual. The response of members to this proposal has been large and again the Council is led to think that its action in forming the Group has been fully justified.

'Having thus made arrangements for members to cover themselves and their families against sickness and accident, we are going on to consider whether there is anything that we can usefully do with regard to retirement benefits and provision for widows and dependants on an insurance basis. The Council has set up a special committee to go into this matter, but I must warn you that it is unlikely that the committee can make any real progress until the publication of the report of the Tucker Committee on retirement benefits.'

Approved Auditors: Friendly Societies

The Registrar of Friendly Societies has issued a supplementary list of approved auditors, giving the names of forty-five new appointments and the names of twenty-four whose appointments have been discontinued.

Rateable Value Analysis

The Institute of Municipal Treasurers and Accountants, in conjunction with the Society of County Treasurers, has prepared a comprehensive analysis of rateable value in England and Wales – the first of its kind to be published.¹

The tables, which are based upon returns made direct by rating authorities, show that the rateable value in England and Wales at April 1st, 1952, totalled £340,914,462, of which the figure for London amounted to £57,409,807, and that hereditaments – domestic, commercial, industrial, etc. – numbered 13,711,309 (excluding Hampshire, for which county no detailed figures are available).

An interesting feature of the analysis is the table showing the number of hereditaments in magnitude of rateable value. This gives an indication of the extent to which house rents may be affected by the Government's policy on the subject, and it is possible to see that throughout the country (excluding Hampshire) there are 4½ million hereditaments the rateable value of which does not exceed £10, and a further 4½ million where the rateable value lies between £11 and £20.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Tuesday, 5.30 p.m. (at the Chartered Insurance Hall): Mock company meeting.

Thursday: All-day visit to the Westminster Bank (limited number).

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students. *5.15 p.m.:* Introductory course lectures on (1) 'Records leading to items in final accounts'; (2) 'A general introduction to income-tax law'.

Saturday, 10 a.m.: Visit to the Stock Exchange (limited number).

Bristol Chartered Accountant Students' Society

The annual dance of the Bristol Chartered Accountant Students' Society is to be held at the Ashton Court

¹ *Analysis of Rateable Value of England and Wales as at April 1st, 1952.* The Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, SW1. 6d post free.

Country Club, Failand, on December 8th, from 8 p.m. to 1 a.m. Tickets, price £1 1s double; 12s 6d single (including buffet supper), may be obtained from Mr D. M. Parkes, 19 Whiteladies Road, Bristol, 8. The Society will be pleased to welcome senior members who are able to attend.

The Association of Incorporated Statisticians Limited

The following programme for the New Year has been arranged by The Association of Incorporated Statisticians Ltd. The meetings will take place at the Institute of Physics, 47 Belgrave Square, SW1, at 6 p.m., preceded by tea, for which no charge will be made, at 5.30 p.m. An invitation to attend is extended to readers who may be interested in the lectures.

January 1st: 'National income statistics: are they accurate or useful?' by Christopher T. Saunders, C.M.G.

January 29th: 'Social classes in sample surveys', by J. S. Downham, M.A.

February 26th: 'Difficulties and dangers in statistics in industry', by C. Davenport Hughes, B.A.

March 26th: 'Some aspects of medical statistics', by Miss Vera Norris, M.B., CH.B., PH.D.

April 30th: 'Uses of statistics in the brewing industry', by Miss Stella V. Cunliffe, B.Sc.(ECON.).

May 28th: 'Organization of a government social survey unit', by Louis Moss, B.COM.

Chartered Accountants' Hockey Club

The Institute XI won its fourth annual game against the Stock Exchange on November 18th at Old Deer Park, Richmond, with a score of four goals to nil. The chartered accountants have now won three games and the Stock Exchange one.

The game was very open with both sides taking the offensive in equal measure. The Stock Exchange met a strong defensive system in D. A. Tripp and A. E. Day at back and J. S. Kinross in goal, whose timing in meeting the opposing breakaway forwards was excellent. P. D. Boobbyer switched the attack from side to side and made many of the Institute openings.

The Stock Exchange pressed hard from the commencement of the game but the Institute defences held out. Half-way through the first half, P. D. Boobbyer scored with a hard shot from the edge of the circle. After half-time, the Stock Exchange redoubled their efforts and on a number of occasions just missed scoring. The Institute forward line had gained a little more cohesion in this half and were more effective in placing their passes. From the '25' line, C. O. Merriman dribbled the ball past the backs and goalkeeper to score the second goal. The Insti-

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tute kept up the offensive and a hard drive by A. D. Bishop scored the third. The forward line worked hard for the next goal which was shot by P. C. Flory after the ball had been driven repeatedly out of the penalty area by the Stock Exchange defenders.

The Institute XI was represented by:

J. S. Kinross (*Guildford*); D. A. Tripp (*Surbiton*) and A. E. Day (*Harrow*); E. C. Campbell (*Cheam*); P. D. Boobbyer (*Wimbledon*) and W. L. Rowland (Captain) (*Purley*); P. H. Jackson (*Purley*); A. D. Bishop (*Old Kingstonians*); C. O. Merriman (*Reigate*); P. C. Flory (*Harpenden*) and G. Robson (*Purley*).

Our Contemporaries

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT. (New York.) (October.) 'Relationship of the fees and costs of small practitioners', by Benjamin M. Sigel, C.P.A.

THE ACCOUNTANTS' JOURNAL. (Wellington.) (September.) 'Notes on the audit of trading stock', by M. S. Spence, M.B.E., C.A.(SCOT.), F.P.A.N.Z.

THE CANADIAN CHARTERED ACCOUNTANT. (Toronto.) (October.) 'The increasing importance of staff training', by Edward M. Boulter, C.P.A.

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (September.) 'Goodwill', by K. C. McQueen.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF NOVEMBER 30th, 1878

Extract from a Note in Passing Bankruptcy Law Reform

In some lengthy remarks . . . it is incidentally stated that "creditors are often just as bad in that respect (in respect of publicity, that is) as debtors, and therefore we must not lay all the blame or even the chief part of the blame on solicitors and accountants." Certainly this is a poor enough *amende* to the professional men at other times so bitterly reproached and maligned; but this is not its only fault. The paragraph must be viewed in the light of another which immediately precedes it, and is to the following effect:—"It is monstrous that those who too often have the winding-up of estates should in effect be the debtor's servants, and this is practically what the present system comes to." But creditors being often as bad as debtors, "*therefore*," says the *Times*, we must not lay all the blame upon accountants and solicitors. . . .

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON NEWS FROM THE COMMITTEE

Change in Mock Company Meeting

Arrangements are well advanced for this year's mock company meeting. A new element is being introduced into the proceedings by enclosing with the annual report and accounts of the mock company details of an offer to the shareholders for their shares.

The directors do not recommend that the offer be accepted by the members and are making a proposal of their own that a part of the assets and undertaking of the company be disposed of to put the company on a more profitable basis.

Plans for the Spring Session

The lecture programme for the spring session is now in course of preparation. It is hoped to include a lecture on solicitors' accounts by an investigator from the Law Society. Arrangements are also in hand for a lecture describing a practical system of costing which is to be followed by a visit by a party of the students at the lecture to see the system actually in operation.

Among other meetings it is also hoped to arrange a mock trial towards the end of the session in conjunction with the Mansfield Law Club to demonstrate a civil action of a kind that would turn upon the evidence given by an accountant.

Sports

Badminton. — In a match played on November 3rd, the Society's team was defeated by University College, London, by seven games to two.

Friday Lunch-time Meetings

These meetings are now being held regularly in the library and students with queries and study problems should find the informal discussion that takes place most stimulating and helpful.

Other Activities

A large number of applications for tickets have been received for both the annual dinner and the Christmas dance. It is anticipated that about 900 will attend the former. The dance is now fully subscribed.

Library News

Recent new books include:

Mechanising for Control. (Burton.)

Group Accounts and Holding Companies. (Macbeath and Platt.)

An Investor's Guide, published by *The Financial Times*.

It is hoped to publish the next London Students' page in *The Accountant* dated December 26th.

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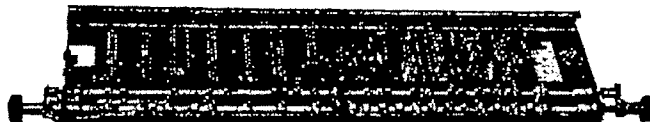
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The Accountant

ESTABLISHED 1874

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CONTENTS

Leading Articles	<i>Page</i>
Estate Duty Valuation of Unquoted Shares	621
A Hall and its History	625
Lecture	
Staff Selection by H. F. Lock, B.Sc., Assistant Director, National Institute of Industrial Psychology	626
Weekly Notes	630
Correspondence	632
Finance and Commerce	634
Reviews	638
Estate Duty: Review of Anomalies - II	
Memorandum submitted by the Council of The Institute of Chartered Accountants in England and Wales to the Board of Inland Revenue	639
Dinner in Darlington	
North Yorkshire and South Durham Branch of the Leeds, Bradford and District Society of Chartered Accountants	644
Women	
Chartered Accountants' Dining Society	
Dinner in London	645
Birmingham	
Chartered Accountant Students' Society	
Annual Dinner	646
Notes and Notices	
Personal - Professional Notes - Obituary - Savoy Hotel Ltd - London and District Society of Chartered Accountants - Manchester Society of Chartered Accountants - The Chartered Accountant Students' Society of London - The Association of Certified and Corporate Accountants - The Institute of Internal Auditors: London Chapter - Our Contemporaries - Seventy-five Years Ago	647

ESTATE DUTY VALUATION OF UNQUOTED SHARES

TAXPAYERS have reason to be grateful to the appellants in the case of *C. R. Holt and Others v. C.I.R.* (*The Times*, November 26th, 1953), briefly reported in our last week's issue. The appeal concerned the valuation for estate duty of 43,698 ordinary shares of £1 each the capital of John Holt & Co (Liverpool) Ltd, which passed on the death of the late Robert Longstaff Holt on March 11th, 1948. The case has focused a good deal of public attention on the manner in which the Revenue's powers under the Finance Act, 1894, Section 7 (5), are exercised in relation to unquoted shares.

That subsection reads as follows:

'7.—(5) The principal value of any property shall be estimated to be the price which, in the opinion of the Commissioners, such property would fetch if sold in the open market at the time of the death of the deceased.'

If there is not a free market in the particular property at the date of death, a free market has to be assumed. When the property consists of shares in a private company subject to restrictions on transfer, it has to be assumed that the shares can be sold free from those restrictions but that these will attach to the shares in the hands of the purchaser, so that he will be influenced accordingly in deciding what price he is prepared to pay (*C.I.R. v. Crossman* ([1937] A.C. 26; 15 A.T.C. 94)). In the present case, the company was a private one with severe restrictions on share transfers.

Commenting on the law, DANCKWERTS, J., in his judgment said:

'The result is that I must enter into a dim world peopled by the indeterminate spirits of fictitious or unborn sales. It is necessary to assume the prophetic vision of a prospective purchaser at the moment of the death of the deceased, and firmly to reject the wisdom which might be provided by the knowledge of subsequent events.'

Although, under Section 7 (5) it is the opinion of the Commissioners which determines the value, Section 10 gives a dissatisfied taxpayer the right to appeal by petition to the High Court. Where the Revenue have valued a piece of property at not more than £10,000, he can appeal to the County Court. As far as we are aware, the present case is the first for some fifteen years in which advantage was taken of Section 10. However, this by no means implies that the opinion of the Commissioners and that of the taxpayer have in every case coincided.

The Evershed Committee on Supreme Court Practice and Procedure reported this year¹ (paragraph 548) that representa-

¹ Cmd. 8878. H.M.S.O. 11s net.

tions had been made to it to the effect that

'it frequently happened that the subject was dissatisfied with the Inland Revenue's valuation but he was deterred from appealing to the Court mainly because the costs, including the fees of the necessary witnesses, would be considerable'.

'We were informed that the subject, being thus deterred from appealing, frequently entered into protracted negotiations with the Estate Duty Office and the valuation eventually agreed was usually in the nature of a compromise.'

As to expense, it is perhaps sufficient to say that the *Holt* case lasted ten days and that each side employed two Q.C.'s, one junior counsel, and at least four expert witnesses. The Revenue's attempts to extract more than what has now been judicially determined to be their due has evidently been costly. The taxpayer, not having the public purse to draw on, has to be more cautious.

Moreover, he is at a considerable disadvantage in negotiation since he does not know what figures have been accepted by other taxpayers in similar cases, whereas the Inland Revenue have elaborate records of past valuations. To a large extent, therefore, the taxpayer is forced to take the Inland Revenue valuation on trust, a trust which ought not to be abused.

The course of the negotiations in the *Holt* case was summarized by the learned judge as follows:

'After beginning at as high a figure as £3 a share, the value claimed by the Commissioners of Inland Revenue is now 25s *od* a share, though the value formally determined by them was not that figure but 34s *od* per share. The figures given on behalf of the petitioners started at 11s 3*d* as the fair value stated by the company, and rose to a value of 17s 2*d* per share put forward in the petition and at the hearing.'

On the last previous occasion when a death gave rise to a valuation (in 1946) the Inland Revenue had agreed a value of 20s per share, not £3, so that it is evident that the Inland Revenue records of past valuations did not play a very important role in this case.

For many years the company had been paying a gross dividend of only 5 per cent per annum, except for a single cash bonus of 1½ per cent out of capital profits, paid in February 1948. The figure of £3 would thus show a yield of less than 2 per cent gross, on a minority share holding which could only be disposed of under the stringent regulations of the articles. It is fair to say that the recent profits, in a period of inflation,

were many times the figure absorbed by such a modest dividend, and that the assets value of the shares, on the basis of the balance sheet as at September 1st, 1947, was some £3 10s. On the other hand the company had large stocks, the prices of which were highly vulnerable, and a bank overdraft approaching £1 million. The ratio of current assets to liabilities was about 1·7 only.

By 1952, some four years after the death, the Estate Duty Office were still proposing £3 per share. It was evident that agreement was not going to be reached and accordingly a formal determination by the Commissioners in person became necessary. At this stage they called in SIR HAROLD BARTON, F.C.A., who valued the shares not at the £3 for which the Revenue were then contending, but at 34s, and the Commissioners made their formal determination on that figure accordingly.

Whether this precipitate retreat from £3 is symptomatic of the confidence which the Commissioners ordinarily repose in their own share valuation experts, or whether it proceeded from a reluctance to submit to public scrutiny the kind of valuation which the taxpayer without the means, or the inclination, to appeal is normally obliged to accept, is a matter for speculation. What is significant is the fact that, after prolonged negotiations, such a complete change of front can take place; a fact which those called upon to pay duty on unquoted shares in the future may do well to bear in mind.

SIR HAROLD BARTON's valuation, which he arrived at after considering the information put before him by the Inland Revenue, was based on a yield of 3 per cent. After hearing the petitioners' witnesses at the trial, he increased this figure to 4 per cent, giving the valuation of 25s for which the Revenue eventually fought, although two other witnesses for the Crown valued the shares at 28s 3*d* (MR C. I. R. HUTTON, C.A.) and 30s (MR T. A. HAMILTON BAYNES, F.C.A.). A fourth Crown witness, MR LOEBL, a stockbroker, also valued the shares at 25s.

Prior to the formal determination by the Commissioners, MR H. T. NICHOLSON, F.C.A., on behalf of the petitioners, had been putting forward a value of 15s or 16s, based on the Actuaries' Investment Index yield of 5 per cent, with a deduction of one-fifth to one-quarter for unmarketability. The first witness for the petitioners

at the hearing was Mr H. A. BENSON, F.C.A., who valued the shares at 17s 2d. Starting with the average yield shown by the Actuaries' Investment Index of 5.09 per cent, he added 1½ per cent in respect of unmarketability and restriction on transfer. This gave a price of 15s 2d to which he added 1s 6d because of the long-term possibilities and 6d for accrued dividend, making 17s 2d in all.

The next witness, Mr R. A. HORNBY, another stockbroker, considered that he could have placed the shares on the market in March 1948, with a quotation, at 20s. Deducting 20 per cent for unmarketability, he arrived at a price of 16s. Mr MARK RICHARD NORMAN, of Edward de Stein & Co, merchant bankers, issuing house and advisers of investment trusts, who was the third to give evidence on behalf of the petitioners, considered that the yield should be half as much again as that shown by the Actuaries' Investment Index. This produced a price of 13s 4½d, but to encourage a company trading overseas he would have been prepared to go up to 15s, giving a yield of 6⅔ per cent. Finally, Mr FRANK SAMUEL, chairman of United Africa Co Ltd, said he would have expected a yield of over 6 per cent, plus one-third on account of transfer restrictions and unmarketability, making 8.19 per cent, which would give a price of 12s 2d. The United Africa Co Ltd carries on a trade similar to that of John Holt & Co (Liverpool) Ltd, namely, that of West African merchants.

After reviewing and commenting upon the evidence, Mr JUSTICE DANCKWERTS pointed out that the holding in question represented only 43,698 out of a total of 697,680 issued ordinary shares. Accordingly, any purchaser would be dependent on the policy of the directors, so long as they should have the support of the general body of the shareholders. Such a purchaser would be different from the common kind of investor since this was a closely held private family company at the time. He would study the company's past history and future prospects and would be more affected by the heavy losses sustained in the inter-war period than the Revenue witnesses had allowed for. Nor had they made sufficient allowance for the effects of inflation, or the difficulty caused by heavy taxation when expensive capital assets had to be replaced. On the other hand, such a special purchaser would be affected by the possibility of

capital appreciation than the petitioners' witnesses had allowed for. Accordingly he came to the conclusion, making the most intelligent guess he could, that the shares ought to be valued at 19s. He awarded costs to the petitioners and refused the Crown leave to appeal to the Court of Appeal.

By the time the issue between the parties had narrowed to the difference between 25s and 17s 2d, a mere 7s 10d per share, the dispute had perhaps lost much of its interest, because no matter how expert the valuers employed, there is bound to be some difference of opinion on the precise weight to be attached to the various imponderables which have to be considered. What the public will have found to be most disturbing is the way in which negotiations were conducted up to the time of the formal determination at 34s, although it will cause little surprise to those who have experience of the process.

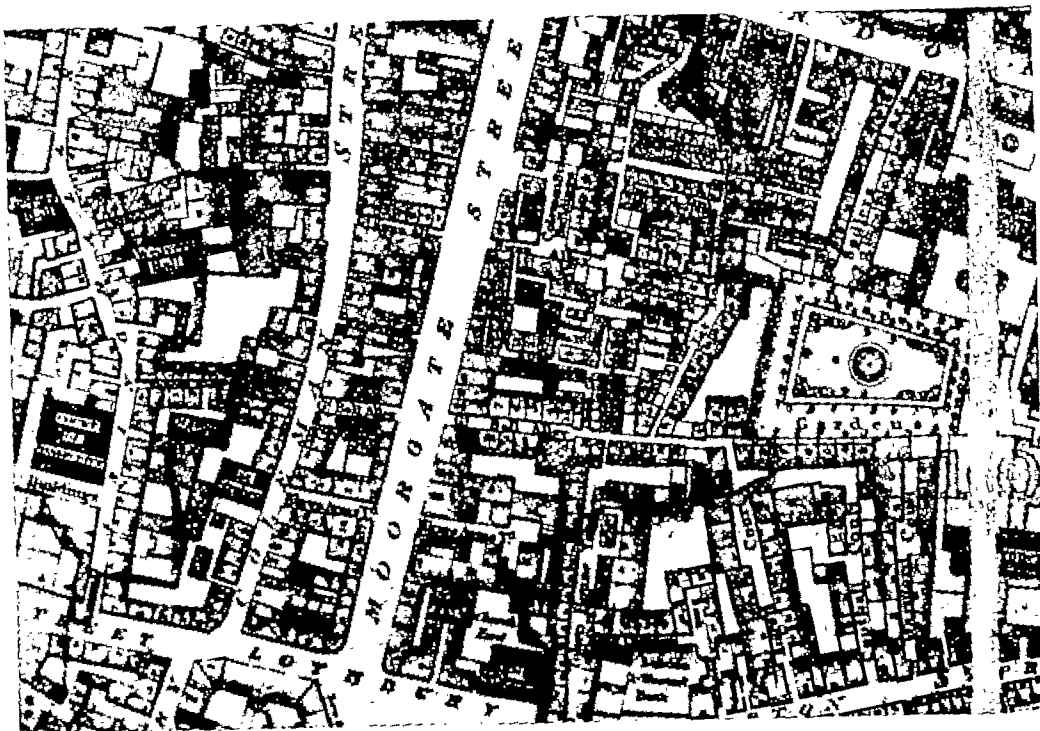
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Alms-houses, Great Swan Alley, 1883, from the original in the Guildhall Library

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Council, a fate which was inflicted on the leaders of a fanatical sect in 1661. The Great Fire fortunately stopped short of Moorgate Place, as, many years later, did the great blitz which destroyed so many neighbouring buildings.

The first accountant to set a somewhat timid foot in Coleman Street Buildings, which stood on the site of the Institute until the Hall was built, was Thomas Weddell, in 1843, but he withdrew it after only one year, and not until 1865 did a firm of accountants, Johnstone, Cooper, Wintle & Co, settle down there and remain, under varying designations, until the time came for the demolition of their offices. Their example was soon followed by other accountants, all of whom of course were obliged to move when the plans for the new Hall were passed.

'When we mean to build.

We first survey the plot, then draw the model,

And when we see the figure of the house,

Then we must rate the cost of the erection:

Which if we find outweighs ability,

What do we then, but draw anew the model

In fewer offices, or at least desist

To build at all?

The words put into the mouth of Lord Bardolph by Shakespeare are appropriate to the first attempts of the founders of the Institute to erect a Hall, when the Royal Charter was granted in 1880. In 1888 the then President, Mr F. Whinney announced that a site had been secured, and a year later Mr Deloitte made known that the design of Mr John Belcher, F.R.I.B.A., had been selected from among six submitted.

The rest of the book is devoted to the architecture, sculpture and painting, the library and its great possessions of valuable early works, and finally, a most interesting and valuable chapter on the personalities whose work lives on in this impressive and dignified building, once described by the Journal of the R.I.B.A. as:

'a standing monument to the happy results that can be achieved by the sympathetic collaboration of the architect, the sculptor and the painter'.

Enjoyment of this book is greatly enhanced by the large number of illustrations, two of which we reproduce on the opposite page.

¹ *A History of the Hall of the Institute of Chartered Accountants in England and Wales*, by John H. Stern, M.A. (Gee & Co (Publishers) Limited. 15s net).

STAFF SELECTION

by H. F. LOCK, B.Sc.

Assistant Director, National Institute of Industrial Psychology

AS our chairman has said, I am an occupational psychologist. A psychologist has been well defined as a man who tells you what you already know in words you don't understand. An occupational psychologist goes one better: he tells you what you already know *about your own job* in words you don't understand. However, I will avoid the jargon of my trade as much as possible in this brief review of some of the methods of staff selection and of some of the principles underlying them.

The business of picking the right man for a given job is clearly of fundamental importance everywhere. I shall not confine my considerations to accountancy but I may use it from time to time for the purpose of illustrating specific points.

Study the Demands of the Job

The first consideration in selection, and one which is very frequently almost entirely neglected, is adequate job study. You cannot properly select a man for anything without a thorough, direct and specific knowledge of the demands and circumstances of the job. One of the great difficulties of those of us who try to advise people about selection is to persuade them to make an adequate job study first. It is not necessarily enough to have done the job yourself twenty or so years ago. You must clear your mind of the load of experience and knowledge which you have acquired during those twenty years, and consider, with a fresh eye and from the standpoint of the new-comer, just what the job entails. It is equally necessary *not* to think in terms of general traits and descriptive adjectives. It is much better—and incidentally much harder—to think exactly what the selected candidate will in fact have to *do* than to talk of tact and drive and initiative and the like.

In an endeavour to consult the authorities on this head, I looked up the Ministry of Labour official booklet about accountancy as a career. It says that

'an intending accountant should have an aptitude for mathematics, be able to write legibly and think and express himself clearly'.

It adds, I am sure justifiably, that the work of the accountant is hard and mentally exhausting. That is all that it officially afforded in the way of a job study. Let us look at it a little more closely.

First, an aptitude for *mathematics*. I am not quite sure about that one: I am persuaded that many accountants are admirable mathematicians, but I should doubt if all of them are at home with projective geometry, matrix algebra, or integral calculus. I am equally sure that many mathematicians are extraordinarily bad at dealing with figures in the audit clerk's sense. And I think that it would be the *aptitude* for figures that we should wish to explore rather than attainment in mathematics. I will pass over the need for legible writing, except to say that on this score a great many people nowadays would be instantly disqualified. Far more important, probably, is the ability to think clearly; this will repay further examination in a moment, as will also the ability to express one's thoughts.

In making a really useful job study, our aim should be to have in our minds a clear idea of the actual circumstances and demands of the various aspects of the job. The next step will be to form an equally clear picture of each of the candidates we have to consider; a picture so clear that we can match it with confidence against the background the job demands and thus go on to the final stage of deciding which of the candidates is the closest fit. There are, you see, three processes in selection: job study, candidate study and the matching process. Now, clearly, the matching process will be simpler, and is likely to be more reliable, if the studies of the job on the one hand and of the candidate on the other are made in similar terms and on a comparable system. There are obvious arguments against schematization in this field of the appraisal of human beings—there are too many variables, people's reactions differ in different circumstances, and so on. It does, however, encourage the getting down to essentials and the making of an orderly assessment.



Mr H. F. Lock, B.Sc.

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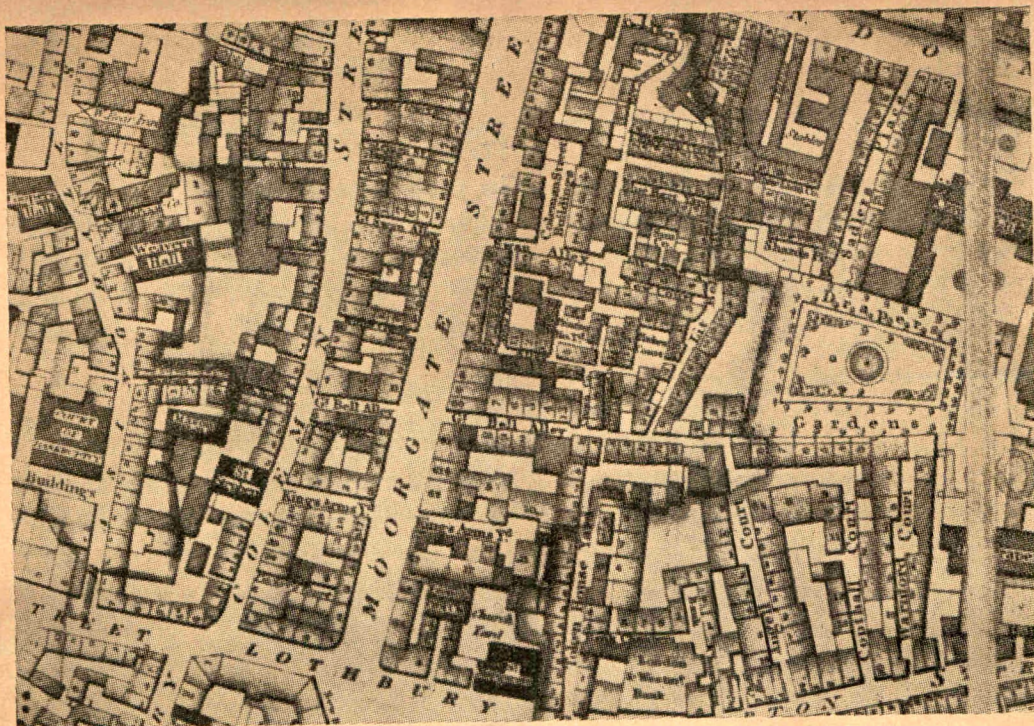
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In delving into bygone ages for the history of the site of the Hall, the author has turned the tones of Great Swan Alley to find beneath them the most fascinating facts, and he takes the reader back to 1444, when the form of animal life most likely to be encountered there was Swannes geese' rather than the watch-dogs of commerce. In the days before London sprawled its buildings half across three or four counties and its citizens could stroll in the fields and on the moor round Moorgate, the ground where the Institute Hall now stands saw many changes of scene. In 1585, 'William Man, a citizen and Merchant-Taylor', bequeathed a lease of tenements in Swan Alley to the 'Poor of this Parish', and it is suggested that these might be identified with the six almshouses which stood at the corner of the alley until 1892, and are shown in one of the illustrations reproduced on the opposite page. The Puritans were wont to gather in this district, and scenes of violence occurred which, one imagines, find no parallel in the calm and dignified deliberations that now take place in the Council Chamber. However profoundly some of our readers may disagree from time to time with official pronouncements, it is inconceivable that they should resort to summary execution by the hanging, drawing and quartering in Great Swan Alley of the President or any members of the

Council, a fate which was inflicted on the leaders of a fanatical sect in 1661. The Great Fire fortunately stopped short of Moorgate Place, as, many years later, did the great blitz which destroyed so many neighbouring buildings.

The first accountant to set a somewhat timid foot in Coleman Street Buildings, which stood on the site of the Institute until the Hall was built, was Thomas Weddell, in 1843, but he withdrew it after only one year, and not until 1865 did a firm of accountants, Johnstone, Cooper, Wintle & Co, settle down there and remain, under varying designations, until the time came for the demolition of their offices. Their example was soon followed by other accountants, all of whom of course were obliged to move when the plans for the new Hall were passed.

'When we mean to build.

We first survey the plot, then draw the model,

And when we see the figure of the house,

Then we must rate the cost of the erection:

Which if we find outweighs ability,

What do we then, but draw anew the model

In fewer offices, or at least desist

To build at all?'

The words put into the mouth of Lord Bardolph by Shakespeare are appropriate to the first attempts of the founders of the Institute to erect a Hall, when the Royal Charter was granted in 1880. In 1888 the then President, Mr F. Whinney announced that a site had been secured, and a year later Mr Deloitte made known that the design of Mr John Belcher, F.R.I.B.A., had been selected from among six submitted.

The rest of the book is devoted to the architecture, sculpture and painting, the library and its great possessions of valuable early works, and finally, a most interesting and valuable chapter on the personalities whose work lives on in this impressive and dignified building, once described by the Journal of the R.I.B.A. as:

'a standing monument to the happy results that can be achieved by the sympathetic collaboration of the architect, the sculptor and the painter'.

Enjoyment of this book is greatly enhanced by the large number of illustrations, two of which we reproduce on the opposite page.

¹*A History of the Hall of the Institute of Chartered Accountants in England and Wales*, by John H. Stern, M.A. (Gee & Co (Publishers) Limited, 15s net).

STAFF SELECTION

by H. F. LOCK, B.Sc.

Assistant Director, National Institute of Industrial Psychology

AS our chairman has said, I am an occupational psychologist. A psychologist has been well defined as a man who tells you what you already know in words you don't understand. An occupational psychologist goes one better: he tells you what you already know *about your own job* in words you don't understand. However, I will avoid the jargon of my trade as much as possible in this brief review of some of the methods of staff selection and of some of the principles underlying them.

The business of picking the right man for a given job is clearly of fundamental importance everywhere. I shall not confine my considerations to accountancy but I may use it from time to time for the purpose of illustrating specific points.

Study the Demands of the Job

The first consideration in selection, and one which is very frequently almost entirely neglected, is adequate job study. You cannot properly select a man for anything without a thorough, direct and specific knowledge of the demands and circumstances of the job. One of the great difficulties of those of us who try to advise people about selection is to persuade them to make an adequate job study first. It is not necessarily enough to have done the job yourself twenty or so years ago. You must clear your mind of the load of experience and knowledge which you have acquired during those twenty years, and consider, with a fresh eye and from the standpoint of the new-comer, just what the job entails. It is equally necessary *not* to think in terms of general traits and descriptive adjectives. It is much better – and incidentally much harder – to think exactly what the selected candidate will in fact have to *do* than to talk of tact and drive and initiative and the like.

In an endeavour to consult the authorities on this head, I looked up the Ministry of Labour official booklet about accountancy as a career. It says that

'an intending accountant should have an aptitude for mathematics, be able to write legibly and think and express himself clearly'.

It adds, I am sure justifiably, that the work of the accountant is hard and mentally exhausting. That is all that it officially afforded in the way of a job study. Let us look at it a little more closely.

First, an aptitude for *mathematics*. I am not quite sure about that one: I am persuaded that many accountants are admirable mathematicians, but I should doubt if all of them are at home with projective geometry, matrix algebra, or integral calculus. I am equally sure that many mathematicians are extraordinarily bad at dealing with figures in the audit clerk's sense. And I think that it would be the *aptitude* for figures that we should wish to explore rather than attainment in mathematics. I will pass over the need for legible writing, except to say that on this score a great many people nowadays would be instantly disqualified. Far more important, probably, is the ability to think clearly; this will repay further examination in a moment, as will also the ability to express one's thoughts.

In making a really useful job study, our aim should be to have in our minds a clear idea of the actual circumstances and demands of the various aspects of the job. The next step will be to form an equally clear picture of each of the candidates we have to consider; a picture so clear that we can match it with confidence against the background the job demands and thus go on to the final stage of deciding which of the candidates is the closest fit. There are, you see, three processes in selection: job study, candidate study and the matching process. Now, clearly, the matching process will be simpler, and is likely to be more reliable, if the studies of the job on the one hand and of the candidate on the other are made in similar terms and on a comparable system. There are obvious arguments against schematization in this field of the appraisal of human beings – there are too many variables, people's reactions differ in different circumstances, and so on. It does, however, encourage the getting down to essentials and the making of an orderly assessment.



Mr H. F. Lock, B.Sc.

A lecture delivered to the London and District Society of Chartered Accountants on November 18th. Mr W. G. Densem, F.C.A., Chairman of the Society, presided.

The Seven-point Plan

There are quite a number of possible systems for assessment purposes. Basically, though, there are two groups of questions which have to be asked. We have, first, to decide what level and pattern of *abilities* the job will demand; and, second, to consider what *kind of a person* will best suit the circumstances of the job. These two questions, I repeat, are basic: *how able* a person, *what kind* of a person. But this, of course, is hardly a systematization, the questions are too general. One convenient way of breaking down the assessment into manageable chunks is known as the seven-point plan. This has the advantage that it is fairly simple, whilst at the same time allowing for coverage of most of the essential ground; it has also the advantage that it can be applied equally well to the study of the job and of the candidates.

The seven-point plan provides seven ways of looking at a person, or at a job, and it involves the asking, and answering, of something like thirty questions. A proper study of the job permits the determination of essential and desirable standards under each of the seven headings: one set that it is *essential* that the candidate should reach, and another, higher, one that it is *desirable* that he should reach. A consideration of the candidate under the same system permits of an orderly marshalling of his qualifications, advantages, disabilities, and so on in such a way that the third process of selection – the matching-up process – can be carried out more easily than would be the case if the arrangement of evidence was purely random.

Physical qualities. If I may run quickly through the seven points, the first is that of physical qualities.

On the one hand, does the job impose any standards of health, physique, appearance, bearing, or speech? On the other, how well does each candidate meet these standards? If I may use my authority again as an example, the Ministry of Labour says that accountancy 'involves mental rather than physical effort' and is suitable for disabled persons provided that powers of concentration are not impaired by the disability and that they are reasonably mobile. That seems fair enough; nothing is said about standards of appearance, bearing and speech, but one has one's ideas about that. Clearly, they must in fact be fairly impressive.

Attainments. The next of the seven headings is that of attainments. In considering the requirements of the job, for instance, we shall make up our minds what is the minimum *educational* requirement, with any additions which, though not actually essential, may be desirable. For an articled pupil, for example, I imagine that you would look for at least five passes in the G.C.E., including English and mathematics. Except in the case of school-leavers we shall also want to establish standards of occupational training and experience; we may decide that some particular job needs a man with at least five years' experience of bankruptcy work, or whatever it may be. Again,

a matter of deciding essential and desirable standards and of determining, in the case of each candidate, how well he measures up to them.

General intelligence. The third heading of the seven-point plan is that of general intelligence: and this is a much trickier one. Clearly, there *is* such a thing as intelligence – something which distinguishes the bright from the dull. Clearly, too, people vary in the amount of it which they have – some are bright, some are dull. For many purposes, intelligence can be equated with the ability to *learn* – not merely to acquire knowledge in the school sense, but to adapt to new circumstances and to acquire new skills. Obviously, again, different jobs have different demands in the way of standards of intelligence. The difficulty comes in attempting to quantify. If, for example, we say – as I am sure we shall – that a boy intending to enter articles as an accountant must have above-average intelligence, what exactly do we mean? What is 'average' and how much above it must he be? Again, there is the problem of gauging *effective* intelligence. People don't use all the intelligence they've got, as a general rule. We shall return to this point when we come to consider the sources of evidence upon which our judgment of candidates must be based.

Special abilities. Besides intelligence, other abilities, talents, or aptitudes may be distinguished, which may be called for to a greater or lesser extent by any particular job. Mechanical aptitude, for example, and manual skill, and talents for drawing and music, will all be present to a greater or lesser degree in any individual. Facility in the use of figures and of words are probably of more importance in the kind of job we are considering. Neither is by any means the same thing as intelligence: you may get a highly intelligent person who is hopeless at figures or, at the other extreme, the calculating prodigy who is in other respects in need of care and control. Some highly verbal persons are also highly intelligent, but the correlation is by no means perfect.

Interests. The fifth of my seven points is that of interests. It may be, and often is, argued that this is entirely irrelevant; that it does not matter whether a man does fretwork or collects stamps or grows roses in his spare time. It is, I think, very true indeed that there may be comparatively little connection between the *nature* of a youth's preferred pursuits and the kind of job he should do. It would be unsafe, for instance, to infer that because a boy likes doing sums in his spare time he should automatically become an accountant. Nevertheless, even the *nature* of an applicant's interests may have some relevance to selection; and almost certainly the *quality* and *range* of his interests will throw light on his disposition.

Disposition. And disposition, as it happens, is the sixth of my seven points. The word 'disposition' has a fairly well-understood colloquial meaning; we speak of a person as having a cheerful or calm or retiring or bossy disposition and have a reasonably clear idea of what we mean. The number of adjectives we

might use to qualify the word disposition is very large; for practical purposes, we must restrict ourselves to three or four. Often, for example, it is necessary to consider our candidates' *acceptability*: how well is he likely to fit in with the people with whom he will have to work; how is he likely to strike clients, and so on. *Reliability* is an aspect of disposition which must almost certainly be assessed. *Self-reliance* is another.

For some jobs it may be essential to assess a candidate's ability to *lead*: to decide whether he is likely to be able to influence others, to get them to do what he wants them to do, and so on. The essential thing under this heading is to avoid vague generalization upon insufficient evidence. One should try to formulate clear questions – does he work well with others? do his opinions carry weight? is he capable of going for long-range objectives in a determined fashion? and so on – and look for evidence rather than 'hunch' to answer them.

Circumstances. The last of my seven points is *circumstances*. We must take some account of our candidate's circumstances, of the opportunities he has had, of the difficulties he has had to contend with, if we are to get his achievements into the right perspective. We must know, also, something of his present circumstances; of his mobility, of his family ties, and so on.

The business of selection, you see, is essentially that of making a *forecast*. To have a chance of being valid and reliable, a forecast should be based upon a hypothesis. A hypothesis is a provisional theory to explain observed facts. In order to try to predict a candidate's behaviour in the known circumstances of a particular job, it is therefore necessary first to acquire enough evidence about him; next, to marshal this evidence into assimilable form; then to form a hypothesis about his talents and temperament, based upon the evidence.

Sources of Evidence about Candidates

We have considered, so far, the kind of evidence we ought to seek about our candidates and how we ought to marshal it. The obvious next point is to consider its sources. Whence, and how, do we secure our information? There are, in fact, a number of sources. We ought so far as possible to acquaint ourselves with our candidate's early background. This is by no means irrelevant; the evidence so provided may have great value in enabling us to get other indications into proper perspective. We ought certainly to explore our candidate's school history; to explore it fully, to review his achievements and attitudes and difficulties in the form-room, on the games field, and in all the aspects of school life. In the case of the school-leaver, of course, this is almost the only source of evidence about him. Even with the somewhat older candidate, however, achievements and attitudes in the world of school may well be significant and should be explored.

Next, we should of course consider our candidate's

advanced education and professional qualifications, if he has any. We shall certainly explore his work history very fully; and, if we are wise, we shall also cover his record in the Forces, whether during the war or otherwise. It is true that the abilities and qualities of disposition necessary for military success are not necessarily transferable without change of emphasis to civil life. It is equally true that some of the virtues of the latter do not figure so prominently in the former. For all that, a man's service record and his apparent attitudes to military life are sources of evidence about him which should in my view not be altogether neglected. Another source of evidence about our candidate is, as I have already said, his interests. We should certainly try to find out something about what he likes to do, and does do, in his spare time.

Methods of the Selector

I must, I think, at this point turn to a short consideration of the methods of the selector. There are a number of ways in which we can seek evidence which will help us to assess our candidates. We shall probably begin by considering his letter of application. I am not here suggesting the use of graphology, although it is in fact, I believe, quite widely used in some countries. But a candidate's chance of getting on to a short list does depend a great deal on the form, content, and style of his original letter. I don't know that there is a great deal to be said about this aspect of selection; I myself prefer a short handwritten letter, covering a typed *curriculum vitae*. But, clearly, this is in any case only a beginning.

Next, we may consider testimonials and follow up references. We shall all, I suppose, have our opinions as to the value of this. A reference from someone known to you, whose opinions you are able to evaluate, will, of course, carry weight; a general testimonial of honesty, sobriety and punctuality dated fifteen years ago may, or may not, be worth the paper it is written upon.

Let us assume, however, that by fair means or foul we have arrived at a short list of, say, six or eight candidates, all of whom, on paper, are roughly comparable with each other and with the demands of the job. Very generally, there are three techniques which may be applied to them. First, we shall almost certainly wish to *interview* them. Second, we may conceivably expose them to one or more *tests*. Thirdly, if the occasion is sufficiently important, we may use one or other of the kinds of *group procedure* which have been developed in the last fifteen years or so. Let us consider these three possibilities.

Interviewer's Primary Task

The primary task of the interviewer is to get to know the candidate; to form an opinion, in short, about his ability and disposition. One of the main functions of the interview is the exploration of the candidate's *attitudes*; and, generally, it may be expected to throw light upon intellectual and social skills, upon personal energy, upon technical knowledge and experience,

and so on. In point of fact, the interview has been shown, in a number of experimental studies, not to be a particularly valid or reliable method of assessment. A typical coefficient of reliability for the interview is about 0.5; which, if my elementary knowledge of statistics does not let me down, means that if two average interviewers interviewed 100 candidates for twenty vacancies, their respective final lists would contain nine names in common. This is perhaps a little shaky; and we are not all, of course, even averagely good interviewers. The fact remains though, that in ordinary circumstances the interview is the main method of assessment. It is subject to all kinds of error: inadequate coverage, tactless handling, excessive 'halo' effect, and many others.

But, as I say, interviewing is the means of assessment which we usually rely mainly upon, and if I were to try to deal with it at all thoroughly I should need another hour. The trouble is, of course, that we all think we are good interviewers whilst in point of fact rather few of us are anything of the kind. The great thing is to try to put your candidate reasonably at his ease; establish what it is nowadays fashionable to call *rapport* with him: to control the interview so as to ensure adequate coverage of all the ground we want to cover; and, in general, to get as much evidence as possible out of what must usually be a fairly short time.

Value of Tests

As to the use of tests, I am quite sure, personally, that in something like nine cases out of ten, properly selected tests, properly administered and properly interpreted, can add something very valuable to the total pile of evidence which we must try to accumulate about our candidates. I am speaking here, of course, of the things which are usually called 'intelligence tests' and which are an object of considerable suspicion to a large number of people. This suspicion, I think, may be fully justified if tests are not properly selected or not properly interpreted.

But very briefly, the intelligence test first of all constitutes a standard task, upon which all the candidates can be fairly judged. Secondly, it provides an objective meaning to the word 'average'. If any two people are asked to rate a third person for intelligence it is quite likely that their ratings will vary. There are a number of possible reasons for this, of course; but probably the most fundamental one is the fact that we have no other standards to apply in such a judgment but our own. The 'average' intelligence is probably an intelligence a little lower than our own; and the trouble is, of course, that our own standards vary a good deal from one individual to another. The intelligence test does get over that, of course, because it is invariably standardized on large populations.

If I were to begin to deal with the 64-dollar question of exactly *what* tests test, I should need another lecture, as I said just now. In point of fact, there is

no doubt whatever, I think, that there *is* a general factor of intelligence and that a good intelligence test measures that factor very fairly well. I am quite prepared to agree, however, that it is not quite the same thing as *effective* intelligence, or the power of dealing with real problems. The intelligence a man possesses is one thing; the amount of it which he habitually *uses* is another. However, I repeat my view that whilst I would not care to do very much selection with no evidence but that of intelligence tests, I regard such evidence as a very useful addition to that derived from a study of the history, from the interview and so on.

Group Procedures

Finally, there are the so-called 'group procedures'. Very briefly, the idea underlying these is that in cases where there are a number of candidates of roughly comparable merit, it is by no means a bad idea for those responsible for making the selection to see them in action *together*. On the mere face of it, this ought to facilitate the process of selection; and whilst I should be hard put to it to provide positive evidence of the validity of the group procedure, I can only say that in my experience very nearly everyone who sees it tried, in proper circumstances, is prepared to agree that it is helpful.

I haven't, of course, time to consider the form of the group procedure in any detail at this time of the evening. Very briefly, the simplest way of doing it is to get your candidates seated round a table, in circumstances of reasonable comfort, and to get them to talk for forty minutes or so about some subject of common interest. They are observed by the selection board, who have opportunities to see the way in which each candidate reacts to the situation, and to secure more evidence about their respective intellectual and social skills, about their personal attitudes and about their abilities and disposition generally.

There are, of course, many variants and elaborations of the group procedure, up to the sort of thing that goes on at Civil Service Selection Board and so on.

Once again, let me say that whilst I don't regard group procedure as being infallible, or as being appropriate to every possible selection job, my view is that if they are properly used in suitable circumstances they can, once again, add significantly to the pile of evidence about each candidate which we should accumulate before arriving at what may be a fairly important decision.

In conclusion, let me underline the fact that no procedure, however elaborate, will do the job of selection for you. In the last analysis, you must form the judgment. The object of the kind of procedure that I have been talking about in the last few minutes is to secure enough valid, relevant and reliable evidence to enable a judgment to be safely made. We shall still make mistakes, of course, but they may be rather fewer and of rather less importance if the decisions have been based on a proper consideration of the problems involved than otherwise.

WEEKLY NOTES

New Member of the Council of the Institute

Mr Philip Vaughan Roberts, A.C.A., chief accountant and a director of the Imperial Tobacco Co Ltd, has been elected a member of the Council of The Institute of Chartered Accountants in England and Wales.



Mr Roberts is a past president of The Bristol and West of England Society of Chartered Accountants and he has been a member of the Taxation and Research Committee since its original inception as the Taxation and Financial Relations Committee.

Educated at Christ's Hospital, Mr Roberts was articled in 1913 to the late Mr H. Holton Sturges, F.C.A., senior partner in the London firm of Harber, Sturges & Fraser. Mr Roberts enlisted in the Honourable Artillery Company in 1914 and a year later was commissioned in the Queen's Own Royal West Kent Regiment. He was wounded at the first battle of the Somme. After serving throughout the First World War he returned to his studies and was admitted an Associate of the Institute in 1920 after gaining third place in the Final.

After a period of two years at the London office of Messrs Price Waterhouse & Co, Mr Roberts became assistant to the chief accountant of the Imperial Tobacco Co Ltd. He was appointed to his present position of chief accountant of the company in 1929 and has been a director since 1947.

Balancing Allowance Anomaly

When the initial allowance on machinery and plant was temporarily withdrawn, the draftsman of the legislation evidently overlooked the fact that the title to balancing allowance might depend on an initial allowance having been made. It was never the intention to withdraw the balancing allowance but this did in fact result in those cases where the machinery was bought after April 5th, 1952, but before April 15th, 1953, when initial allowance was restored. If such machinery was disposed of at a loss in the same accounting period in which it was bought, it did not qualify for balancing allowance, for Section 292 (1) of the Income Tax Act, 1952 (re-enacting Section 17 of the Income Tax Act, 1945), confines balancing allowance to machinery 'in respect of which an initial allowance or an annual allowance has been made'. This anomaly has been pointed out in our correspondence columns on September 12th and

26th. Our correspondents very rightly pointed out that a concession ought to be granted in such cases. We learned this week that the Inland Revenue have now decided to grant this concession. Presumably computations already agreed can now be reopened in appropriate cases.

The N.U.M. and Estate Duty

The official inquiry into estate duty anomalies was again in the news this week as a result of a new memorandum by the National Union of Manufacturers, which has been indefatigable in bringing the shortcomings of estate duty to the Chancellor's attention. The memorandum calls for a public inquiry 'to probe the full extent of the damage which is being done to the private sector of industry by the heavy rate of death duties, and advise as to the appropriate remedies'. The statistical investigation carried out by the Inland Revenue, on which we reported in our issue of July 21st, 1951, does not seem to have satisfied anybody other than the Inland Revenue themselves. The memorandum points out that it is now over three years since the Union drew attention to the problem. Although the Finance Act, 1940, Section 55 is one of the principal bugbears, the Union looks for a reduction in the high rates charged. As regards valuation itself, it is suggested that a new tribunal be set up to decide disputes on valuation. The tribunal would be on the lines of the Transport Arbitration Tribunal, consisting of a lawyer, an accountant, and a person experienced in finance. The memorandum urges that such a tribunal should conduct its proceedings in public. The course of the negotiations in *Holt v. C.I.R.*, which we review in a leading article in this issue, gives added point to this need.

Profits Tax: Shares Redeemed at a Premium

The decision of Mr Justice Upjohn in *C.I.R. v. Universal Grinding Wheel Co Ltd* ([1953] 32 A.T.C. 180), which we briefly reported in our issue of May 16th, 1953, has been upheld in the Court of Appeal (*The Times*, November 28th, 1953). This was to the effect that where redeemable preference shares are redeemed at a premium under the terms on which they were issued, then the money paid out of profits as premium is a sum applied in reducing share capital within the meaning of the Finance Act, 1947, Section 36 (1), proviso. Accordingly, although it amounts to profits distributed to shareholders, it is not a distribution for profits tax purposes. Upjohn, J., expressed some doubt on the matter, and the Court of Appeal decision was a majority one, Lord Justice Hodson dissenting. Leave to appeal to the House of Lords was given. The decision is of course very far-reaching in its effect, and if the Crown is unsuccessful in its appeal, the next Finance Bill may well reverse the decision.

Production and Exports

While concern continues to be expressed about the failure of exports to show any notable resilience, industrial production continues to expand. It is one statistical confirmation that goods are going increasingly into the home market and that inflation for the time being is being warded off not so much by continence on the part of the public as by the ability of supplies to keep in pace with purchasing power.

The Central Statistical Office expects that the official index of production will be about 127 or 128 for October. If this should be so, it will compare with 120 in the same month of 1952 and with 121 in October 1951. The increase compared with September will have been of the order of about 2 per cent.

Quite a wide variety of industries have contributed to the increase in October. Outstanding among them have been steel, motor vehicles and certain textiles. Steel, motor vehicles and rayon were running at record levels during the month. On the other hand, coal is still lagging and it is possible that a serious fuel situation has been avoided only by the exceedingly mild weather so far this autumn.

It seems probable that the recent buoyant trend of industrial output will carry on through the turn of 1953-54. None of the industries which are setting the pace are likely to suffer an abrupt change over the fourth quarter of the year and the Christmas shopping season adds a seasonal fillip to business. Neither steel nor motor vehicles are quite so sure of their markets in early 1954. Steel will still have a ready market but some lines will have to be sold with growing vigour and motor-cars may have a problematical 1954. The outlook, like the weather at the moment, is settled. There are factors which may develop early next year, however, notably in the export market, which prevent such a short-term forecast having a complacent ring about it.

Public Corporation for the B.I.F.

A White Paper, published last week, gives the findings of the sub-committee set up by the Exhibitions Advisory Committee of the Board of Trade on the future of the British Industries Fair. One of its main recommendations, to create a public corporation to run the fair, has already been accepted by the Government for the London section of the exhibition.

The report recommends that there should be a corporation set up under the Companies Act with a board of not more than seven directors - a chairman, a Government nominee, a representative of the Birmingham Chamber of Commerce and four independent members. The chairman should be a prominent industrialist. A further recommendation is that the Government should guarantee the corporation for five years up to £100,000 and during those years the corporation should so conduct itself that it can carry on thereafter without Government help except for an annual grant of £100,000 for overseas publicity. The new set-up should take over as from 1955.

The Government, if it accepts these proposals, would, in effect, be removing the complete Government control which has existed so far in favour of an organization more representative of industry (a form of control much favoured with the big fairs on the Continent) and insisting on the B.I.F. running on a financial basis sufficient to meet its needs for working capital apart from the initial subvention and the annual one for overseas publicity. The new corporation would thus be left to find its own solution within the discipline of a profit and loss account to the difficult problem of how to sustain exhibitors' interest in the Earl's Court section of the Fair. The Castle Bromwich section, which is run by the Birmingham Chamber of Commerce, has developed through the years into a much more successful venture from a commercial point of view. The experience gained there would be of value to the new corporation if all the suggestions in the White Paper are adopted.

Higher Licence-free Building Limit

The Minister of Works has announced that as from January 1st, 1954, the licence-free limit for all agricultural and industrial building will be raised to £25,000. At the same time the licence-free limit on other building will be raised to £1,000. From that date also local authorities will be able to give building licences automatically for houses up to 2,500 sq ft for up to fifty houses at a time.

Activity in the building industry has been on the increase both for houses and industrial premises right through this year so far and this steady expansion has been part of an overall steady expansion since the war. But within the overall increase, industrial building has fared worse than housing. In the second and third quarter of 1951 industrial buildings under construction were valued at £183 million. At the end of August this year, the latest month for which figures are available, factories under construction were at £154 million, having dropped just below £150 million at the turn of the year. On the other hand it looks as though the number of building projects approved in the third quarter of this year will have been about equal to those approved in the first quarter of 1951. In other words, the process of stepping up the rate of industrial building is already well in hand before the relaxation in controls due on January 1st comes into effect. Among building materials, steel is now running at a high level of output and among other key materials only bricks and clay tiles were in a worse stock position in the early autumn than they were twelve months previously. Brick production, which was a critical factor this summer, has now begun to build up a rate of output well above that for the same period a year ago though stocks may build up more slowly.

It is beginning to look as though the final dismantling of building restrictions, perhaps the most notorious of all the controls in the eyes of the public, has begun.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

'The Sacred Cows of Taxation'

SIR, — Mr Alun Grier Davies's footnote to my letter in last week's issue is so much to the point that I hardly feel at all the burden of duty to unbanish him: the burden of gratitude to him will be shared by so many, I believe I can bear my share of this too.

If the truth of Angus Fletcher's favoured French proverb endures, one may wonder upon whose authority its excellent principle was later forsaken, and whether its abandonment was essentially connected with its value as a principle of tax collection. '... *plus de mouches* ...' of what? Of tax? Of employment? of security? of authority? Argument by analogy is liable to leave many questions unanswered, and unasked.

This is not meant to question Angus Fletcher's use of the term, which in its context was specifically related to tax yield; but only to exemplify the choice of interesting conclusions available in the method of argument by analogy.

Since the days of Angus Fletcher, Scottish Comptroller-General, 100 years have passed, and it may well be due for consideration afresh what application the principle of his French proverb might have today for the great benefit of us all. I think Mr Davies may have rendered us a more important service in calling attention to this matter than may now be realized. The danger in a moral void is not that we shall not receive the answer, but that we shall be told the question too.

Mr Davies may remember, a fire-cracker style was for a while highly considered one November.

Yours faithfully,

Bromley, Kent. B. KENNETH FLETCHER.

SIR, — With reference to the article in the November 21st issue of *The Accountant* entitled 'The sacred cows of taxation', Mr Davies seems to have included one 'screw'. I refer to his remarks regarding 'the meticulous chasing of pennies'. I would suggest that he is either out of touch with present conditions in the provinces or has in his district one of those less agreeable Inspectors with whom we are plagued from time to time. As a general run I think it can be said that 'a detailed check' is certainly not made in practically every case by the Inspector of Taxes. Since the back duty drive began this has been very noticeable.

With regard to the 'golden calf' of P.A.Y.E., has not the time come for the Institute to make representations to the Board of Inland Revenue? Many Revenue officials appear to forget that the employer and his accountant are now called upon to do much of the work previously carried out by the Inland Revenue and there is a tremendous waste of time and

money in trying to enforce the exact procedure in all cases. The scheme was designed for the larger undertakings with an office staff to work it. It is cumbersome for the cases of directors' remuneration, farmers and one-man businesses with no office staff.

Yours faithfully,

Bridgwater.

V. C. BURSTON.

[The seventeenth meaning of the word 'screw' given in the *Oxford English Dictionary* is 'a horse not perfectly sound; also by a transfer of meaning, a cow not perfectly healthy'. — Editor.]

Section 459 (14), Companies Act, 1948

SIR, — Your correspondent, 'Perplexed', has raised an interesting point (your issue of November 7th).

Section 459 of the Companies Act, 1948, is concerned with the 'repeal and savings' of earlier Acts affecting companies. Subsection 14 of that section appears to state that the incorporation of a company under an earlier Act is in no way affected by the repeal of that Act nor are the regulations for its management under the repealed Act (so far as they remain legally in force at the commencement of the Companies Act, 1948).

In my opinion the purpose of subsection 14 of Section 459 is to allay any doubt that repeal of an earlier Act would terminate the legal existence of a company incorporated under that Act.

I think it then follows that Section 184 of the Companies Act, 1948, overrides any other provisions for the removal of directors during the validity of the Companies Act, 1948, that is to say, that directors may only be removed from office in the manner provided by Section 184 on and from July 1st, 1948.

Yours faithfully,

Tokworth, Surrey.

K. E. W. HIDER.

Double Taxation in Canada

SIR, — I refer to your Weekly Note on Canadian tax cuts in your issue of February 28th last. In commenting on the Canadian budget for 1953-54 you state that dividends from Canadian corporations are now reduced by 20 per cent in arriving at individual total incomes to reflect the fact that profits out of which the dividend is paid have already borne tax. You further point out that the shareholders of a British company get no relief in respect of profits tax borne by it.

May I, in turn, respectfully point out that although your comments are absolutely correct, they may give rise to a false impression that Canadian shareholders receive substantial relief from double taxation as compared with shareholders of British companies.

A shareholder of a Canadian company receives his dividend from the profits remaining after payment of

corporation income-tax, i.e. 20 per cent on the first \$20,000 of profit and 49 per cent on the excess. He pays personal income-tax on such net dividend, with only a small measure of relief from double taxation, i.e. tax on 20 per cent of the dividend. He also pays a separate 4 per cent tax on investment income, subject to certain reliefs, which increases further the total taxation paid on the company's distributed profits. In Britain, however, a shareholder does not have to pay any additional income-tax on his dividend, and may even claim a refund from the Inland Revenue if he is not liable at the full standard rate paid by the company. Admittedly he receives no relief for profits tax paid by the company, but as this will generally be lower than the average rate of corporation income-tax paid by a Canadian company, the Canadian shareholder is subject to double taxation to a much higher degree than is the case in England.

I appreciate, of course, that the total effect of income-tax, profits tax and sur-tax would have to be taken into account in individual cases, but as the British shareholder receives full credit for income-tax paid by the company, and as personal income-tax in Canada is on a graduated scale rising to 86 per cent, I should imagine that the majority of Canadian shareholders are taxed more heavily than they would be in the United Kingdom.

The corporation income-tax rates quoted above include 2 per cent old-age security tax and are therefore that much higher than the rates quoted in your article. This tax is also payable by individuals on the first \$3,000 of their taxable income.

Yours truly,

T. S. M. GARD, A.C.A.

Calgary, Alberta, Canada.

Appointment of Auditors

SIR, - Your correspondent 'G.', inquiring in his letter in your November 21st issue, may be interested in an instance similar to the one he described.

A rule authorizing a 'two person audit' was on my advice amended to:

'The general fund of the association shall be audited annually by a person who is a member of a body of accountants established in the United Kingdom and, for the time being, recognized by the Board of Trade. A copy of the rules of the association and any amendments thereto shall be supplied to the auditor of the association for the time being.'

This has worked very well since.

Yours faithfully,

London, EC4.

DAVID LIPSON.

Stock Control System for Seed Warehouse

SIR, - With reference to the inquiry in your issue of October 17th, I am chairman of the directors of an old-established family seed business which appears to be quite similar to the one mentioned.

I should say that the first requirement is a really good storekeeper. I agree that bin-cards would be impossible to operate but a good man will keep a

watchful eye on the stocks and, in practice, the running down of a particular class of seed should be speedily noticed by him.

Our system is somewhat as follows: when an order from a farmer for a mixture is received an invoice is made out in triplicate (two carbon copies) in the office, addressed to the farmer, in which is set out the exact ingredients for the mixture and the weight totalled at the bottom. The warehouseman receives two copies, ticks off each item as he puts it into the heap for mixing and, when he has finished, encloses the top copy of the invoice in the bag, keeping the second himself. The third copy forms the basis of the day-book entry.

Periodically, the day-book is analysed and the totals dispatched are entered in the stock-book kept by the office.

It is agreed that during the busy seasonal period it would be impossible to reconcile the stock records at frequent intervals, and that must await the end of the rush.

If, however, the storekeeper could keep an analysis sheet of his issues, and total them daily, writing off the issues to his stock-book, and the office were to do likewise, that would seem to be the perfect solution, but I doubt whether time would permit that being done when it is most necessary.

If, as I say above, you have a good warehouseman and this system is worked, you should not have any real difficulty; any difference should be cleared up each time a particular consignment of seed is worked out to nil.

In the case of the business I refer to, the office and warehouse are in very close proximity, and it is easy for them to keep in close touch. This system is simple and has stood the test of years.

As I am in practice, I prefer to write under a *nom de plume*.

Yours faithfully,

TIMOTHY.

Profits Tax

SIR, - The Institute of Chartered Accountants in England and Wales is to be congratulated on publishing its thinking on the accounting difficulties presented by this complicated tax. The balance sheet position seems to defy any satisfying solution other than abolishing the tax itself. I wonder, however, whether the profit and loss account aspect cannot be solved more simply by

- (1) showing in the profit and loss account proper the profits tax related to the profits of the year before any distribution is decided, i.e. the net tax payable were there no distribution at all; and by
- (2) showing in the appropriation account, alongside the distributions proposed, the additional profits tax payable as a result of the distributions - indicating incidentally the gross cost of distribution.

The solution suggested recognizes two things:

- (a) that the additional tax incurred with distribution

is in effect a distributed profits tax and not just a profits tax;

- (b) that the profit and loss account for the year should limit its cover to the year's *earning* activities and the appropriation account to the year's *appropriating* activities, each year considered independently.

By thinking along (b) lines, the occasion of a profits tax distribution charge is automatically catered for without upsetting the year's profits reported by the profit and loss account.

Yours faithfully,

Dublin.

A. PAKENHAM-WALSH.

Income Tax: Declining Value of Leasehold Property

SIR, — We, as a manufacturing company, have over the last year or two been forced to purchase houses for occupation by our workers. No rent is charged, and occupancy of the houses is by virtue of their service with the company, and on leaving the company's service they have to undertake to vacate the house. They pay outgoings, i.e. rates, Schedule A, etc., but we are responsible for external repairs and upkeep.

Unfortunately, it is very seldom that we are able

to purchase freehold property and most of the leases are for eighty years or slightly under.

We have made various inquiries to see whether we can claim any income-tax allowance in respect of the declining value, but so far have been advised that no allowance is possible. We feel, however, that there must be some relief and should be glad if any of your readers with experience of leasehold property could give us any information.

Yours faithfully,

HOUSE-OWNER.

Balancing Allowance Anomaly

SIR, — With reference to the letter from 'R. H.' in your edition of September 12th last, I discussed this point with one of my local Inspectors who took it up with some of his colleagues. It was agreed that an obvious anomaly existed and I have since then had the allowance granted as a concession in two or three instances.

I would suggest that 'R. H.' presses the point in his own case, and regret the delay that has elapsed between his letter and my reply.

Yours faithfully,

J. E. E.

FINANCE AND COMMERCE

A distinct change in stock-market emphasis has developed. Repeated stressing of export market difficulties and prospective industrial wage disputes have halted the upward movement in home stocks and interest has shifted to the South African mining market and to recently-depressed commodity shares such as rubber and tea. Regarding home sections, however, it should be realized that institutional investment activity is invariably light at this time of the year.

On Reserves

The accounts of the Calcutta Tramways Co Ltd, which we reprint this week, reflect some of the problems the company has had to face in the new India. One of them is the misconception in India of what constitutes a free and distributable reserve — or perhaps 'misconception' is not quite the word.

The balance sheet has undergone some re-grouping and notes have been added. This, says Mr D. E. Webb, F.C.A., the company's chairman, is an endeavour to explain to shareholders and the public in India how the reserves have been expended and how wrong is the popular misconception that the company has limitless free reserves.

Once again, says Mr Webb, he would reiterate that a reserve is only free as long as it is represented by cash or readily realizable securities. Once the money has been spent on assets, then it is a reserve employed in the business of the company and, in fact, becomes part of the capital of the company.

It is no longer available to be used again for any future projects of the company.

One Example

All this may seem so simple to accountants but as the company's unfortunate experience in India has shown, it is either something which in India is not understood or which the authorities there find it convenient to ignore. What has happened to this company is in fact almost unbelievable.

Mr Webb refers to the growth of trade unionism in India since the country became independent. Under an Industrial Disputes Act, the Government is enabled to set up tribunals composed of persons of a status of High Court or District Judge. These tribunals, he says, administer no principles of law and in fact make their own principles as they go along. They are composed of men with no commercial experience whatever and their awards appear to bear little relationship to common sense or commercial prudence.

To take one example only, Mr Webb recounts what happened to the company last November. An award was made by a tribunal granting retrospective and continuing increases in dearness allowances and also a special bonus in respect of the year 1950. It was that year that the company had placed £60,000 to reserve for improvements and extensions.

Two years after the application of the £60,000 in that way, this tribunal, with no experience of running public transport, informed the company that it was wrong in setting aside £60,000. The transfer, it

maintained, should only have been £20,000 and the company was therefore ordered to pay the £40,000 difference within a month to the employees as an additional bonus.

Mr Webb was in Calcutta at the time and was therefore able to make a personal protest. He explained that the full £60,000 had already been used in paying for additional trams which were, at that moment, running in Calcutta. But that made no difference, and they were left to conclude, he says, that the tribunal in arriving at its award had not considered whether such increases in reserves were necessary for the company or even for what purposes they were used but merely based its decision on the ability of the company to pay.

Merger Pitfalls

The final form in which the merger of John Crossley & Sons Ltd and Carpet Trades Ltd, two important members in the carpet-making industry, has been arranged is a reminder of the forethought that must be given if the pitfalls unwittingly presented by the Legislature are to be avoided in matters of this kind.

It would seem quite a simple matter to create a unity of interest and direction by the formation of a holding company to take over by way of exchange the capitals of the two operating concerns, and this was the method that the boards had in mind some months ago when the subject of the merger came under discussion.

As the negotiations proceeded, however, and the

THE CALCUTTA TRAMWAYS COMPANY LIMITED Statement of Accounts for the Year ended December 31st, 1952

Dr.		REVENUE ACCOUNT										Cr.			
1951								1951							
£	Expenditure	£	£	Receipts	£						£				
131,157	Power Expenses	145,013	1,764,183	Traffic Receipts	1,865,590										
627,851	Traffic Expenses	704,294	17,739	Advertising and Sundry Receipts	19,715										
333,585	Maintenance and Repairs	382,748													
187,575	General Expenses	210,731													
	Bonus to Staff:														
44,529	Bonus for 1952	£47,225													
—	Additional Bonus under Tribunal Award	39,228													
		86,453													
	Arrears of Dearness Allowance under Tribunal Award	43,415													
33,310	Contribution to Staff Provident Fund	35,335													
423,915	Balance carried to General Revenue Account	277,316													
£1,781,922		£1,885,305	£1,781,922								£1,885,305				

GENERAL REVENUE ACCOUNT				£	£
£	Expenditure	£	£23,915	Balance brought down	277,316
9,767	Expenditure in London, including rent of London Offices, Secretarial Services and General Expenses	11,107	135	Transfer Fees	100
9,917	Directors' Fees	9,533	286	Interest and Dividends on Investments (gross)	408
157	Auditors' Fees	158	4,531	Other Interest	7,273
80,000	Renewals and Replacements Account	80,000	248	Profits Insurance Recovered	—
3,018	Provision for Deferred Repairs	—			
400	Exchange Adjustment	198			
325,856	Balance carried to Revenue Appropriation Account	184,101			
<u>£429,115</u>		<u>£285,097</u>	<u>£429,115</u>		<u>£285,097</u>

REVENUE APPROPRIATION ACCOUNT				£	£
£	Provision for:	£	325,856	Balance from General Revenue Account	184,101
	United Kingdom Income-tax, 1953-54	£91,000		Income-tax deducted from Debenture Interest paid, less Tax deducted from Investment Income	11,934
150,000	United Kingdom Profits Tax	4,000	11,894	Provision for Taxation in previous years no longer required	23,857
	Note.—These Taxes include Indian Income-tax, the amount of which is fully relieved.	95,000	—		
15,750	First Debenture Stock Interest (gross)	15,750			
10,189	Second Debenture Stock Interest (gross)	9,711			
87,457	Shareholders' Account, carried down	87,457			
74,354	Balance transferred to Special Reserve Account	11,974			
<u>£337,750</u>		<u>£219,892</u>	<u>£337,750</u>		<u>£219,892</u>

SHAREHOLDERS' ACCOUNT				£	£
£	Second Debenture Redemption Account	£4,947	£	Balance available for distribution to Shareholders brought down	87,457
4,700	Preference Share Dividend, less Income-tax	6,562	87,457	Balance from 1951 Account	34,194
6,563	Interim Dividend on the Ordinary Shares of 2½ per cent. free of Income-tax paid on May 15th, 1953 (net)	17,500	—		
17,500	Final Dividend on the Ordinary Shares	—			
24,500	Balance as per Balance Sheet	92,642			
34,194					
<u>£87,457</u>		<u>£121,651</u>	<u>£87,457</u>		<u>£121,651</u>

growing complexity of aircraft production, the company has extended its internal training scheme and attention has been increasingly concentrated on the public schools, grammar schools and the universities with the intention of obtaining potential executives and training them on as broad a scale as possible.

In addition, Mr Hill says: a new commercial apprenticeship scheme has been introduced in conjunction with the Southampton Technical College which will enable trainees to acquire accountancy

or secretarial qualifications, thus maintaining and expanding the company's administrative staff.

Money Market

Treasury bill applications totalled £368,425,000 on November 27th and this reduction of some £6 million enabled the market to obtain 50 per cent of requirements against 43 per cent the previous week at a maintained bid of £99 9s 6d. The average rate was £2 1s 11.45d per cent and this week's offer is £250 million.

COMPANY LIMITED December 31st, 1952

£	1951 £	£	£	£	£	£
2,674,850			Fixed Assets			
			Capital Expenditure on Undertaking to December 31st, 1952, allocated below ..			2,748,930

Statement of Fixed Assets (As allocated in 1934 by the Directors, with Additions since at Cost)			
	Balance 31-12-51	Net Additions 1952	Total 32-12-52
	£	£	£
Expenditure prior to Electrification, including cost of Concession, Land, Buildings and Equipment, less Sales, deemed to be the value of the Concession at such date	357,231	—	357,231
Land and Buildings	362,435	20,479	382,914
Overhead Equipment and Permanent Way	685,493	26,489	711,982
Rolling Stock	1,082,112	14,666	1,096,778
Plant and Equipment	187,579	12,446	200,025
	£2,674,850	£74,080	£2,748,930

Current Assets		£	£
293,399	Stocks and Stores on Hand and in Transit: As valued by the Company's Officials		377,855
27,016	Sundry Debtors		26,448
7,269	Investments: Quoted Investments at Cost (Market Value at December 31st, 1952, £1,605)	7,269	
—	Unquoted Investment at cost £10,833 The Calcutta Tramways Co Ltd: 5 per cent 2nd Debenture Stock at Cost	450	
8,049		9,073	16,792
148,625	Tax Reserve Certificates		128,900
24,345	Cash and Investments held on account of Employees' Security Deposits per Contra: Indian Government Paper (Market Value at December 31st, 1952, £21,509)	25,950	
28,625	Cash	4,244	30,194
390,859	Cash on Deposit and Current Accounts and in Hand		254,580
896,573			834,769

D. E. WEBB, }
B. H. CLARK, } *Directors.*

Notes.

1. Outstanding commitments or uncompleted Contracts for Capital Expenditure are estimated at £160,000.
2. In the above Accounts the rate of exchange has been taken at 1s 6d per rupee.

REVIEWS

Current Accounting Trends

by A. A. Fitzgerald, B.Com., F.I.C.A.,
F.C.A.A.

(Butterworth & Co (Australia) Ltd. 35s net)

For the past quarter of a century, Mr A. A. Fitzgerald has been one of the leading influences in the profession in Australia. In articles and lectures, produced without stint despite the many other calls on his time, he has not hesitated to state opinions which, as they were invariably backed by honest thought and long experience, could not be ignored even if the fundamental propositions they contained were not always wholly acceptable. It is fitting, then, that he should have been induced to preserve in permanent form a selection of these stimulating and challenging pronouncements.

The resultant volume, prepared for publication by Mr L. Goldberg, B.A., M.COM., A.I.C.A., discloses the wide scope of Mr Fitzgerald's professional survey. There are twenty chapters, each with a number of principal sub-headings, the last of which is usually a succinct summary of the preceding subject-matter. It would be difficult to find a topic of current interest to the profession which Mr Fitzgerald has not dealt with in some detail. He appears to be fully conversant with the trends of accounting thought both in this country and in America so that his approach to each topic, as well as being admirably objective, is international. The collection, which clearly demonstrates the close affinity between accounting problems in Britain and in the Commonwealth, is a monument to the industry and integrity of its author and deserves to be widely read and circulated in both hemispheres.

Principles of British Insurance

by Harold E. Raynes, F.I.A., F.C.I.I.

(Sir Isaac Pitman & Sons Ltd, London. 20s net)

Those who were introduced to Mr Raynes' *History of British Insurance* will not be surprised at the high standard of this further contribution, which follows in natural sequence, by one so qualified to interest and instruct his readers in this subject.

In attractive non-technical language Mr Raynes demonstrates to his readers the *universal* application of insurance principles, taking illustrations from many branches and classes of British insurance, whereas other authors have dealt rather with the principles underlying the particular kind of insurance cover in which they were interested.

The principles are treated in this work under three headings. In the 'Economic' section Mr Raynes first discusses the various risks to which capital, both circulating and fixed, is subject and the steps taken by business men and organizations to eliminate or spread such trade risks. Of these, insurance is shown to be the most important step towards

the reduction of the risks, and the various types of insurable risks are discussed and classified.

In the next – the 'Financial' – section of his book, Mr Raynes analyses the various means where the risks insured are spread amongst the carriers (or insurers) of the risks – namely, the insurance offices (both 'tariff' and independent), the 'mutual' offices and 'Lloyd's' – and the further dissemination of the risks by the expedient of reinsurance (i.e. insuring the insurer).

In the 'Legal' section, Mr Raynes discusses the essential principles that underlie all insurance contracts – insurable interest, indemnity and subrogation, amongst others. And in the last chapter of this helpful work he examines broadly the essential principles of contracts in general and of insurance contracts in particular; he closes with special reference to the principle of 'utmost good faith' which fundamentally binds the parties to a contract of British insurance.

Although in its formal construction the book is directed particularly to students in insurance seeking a comprehensive knowledge of that subject, it is primarily intended for general readers in commerce, and it may be commended to every business executive having responsibilities in insurance matters.

The Law of Wills: Including

Intestacy and Administration of Assets
Fourth Edition

By S. J. Bailey, M.A., LL.M.

(Sir Isaac Pitman & Sons Ltd, London. 40s net)

This book is sub-titled 'An introduction to the rules of law equity and construction relating to testamentary dispositions' and that is precisely what it is. The preface to the fourth edition is dated January 1952, and states that decisions to the end of 1951 have been incorporated. However, the book is more up to date than that for it incorporates the new rules of distribution on intestacy which came into force in 1953, although references to these new rules are still omitted from earlier chapters. Not only has this work been brought up to date, it has been improved in many respects. An excellent book for the student; the practitioner can also dip into it with profit.

C.P.A. Problems and Questions in Theory
and Auditing
Fourth Edition

by Jacob B. Taylor, M.A., D.AdM., C.P.A., and
Hermann C. Miller, M.A., C.P.A.

(McGraw-Hill Publishing Co Ltd, London. 56s net)

Half the 'knack' of doing crossword puzzles is to get to know the psychology of the setters. Similarly, much of the art of passing examinations lies in an

exact appreciation of the standard required and this can usually best be done by becoming familiar with the papers of the immediately previous diets and sensing in which direction the minds of the examiners tend.

This book contains about 400 practical and theoretical questions taken from the accounting sections of the C.P.A. examinations, mostly over the past fifteen years. While it is primarily intended for American usage, it has much to offer British examiners, teachers and students, as it provides an excellent comparison of the respective examination requirements of the two countries. The solutions are published in a separate volume.

Internal Auditing

by A. C. Smith, C.A.

(Sir Isaac Pitman & Sons, Ltd, London. 21s net)

Internal auditing, as the author of this new treatise points out in his opening chapter, is auditing for management. It is the accuracy of the information behind the façade of the annual financial accounts, in the form of weekly or monthly profit and loss statements and other statistics relating to the progress of the business, which is the internal auditor's main concern.

Mr Smith, in a series of penetrating chapters on the administrative machinery of a commercial undertaking, expertly emphasizes the essentials for proper control. He also gives two interesting appendices, one on sampling and the other containing specimen internal control questionnaires.

RECENT PUBLICATIONS

CARTER'S INCOME TAX, SUR-TAX AND PROFITS TAX. Fifth edition by G. W. Murphy, B.A.(COM.), F.C.A., and F. A. Bailey, A.C.A. 216 pp. 9×5½. 15s net, post free 15s 6d. Gee & Co (Publishers) Ltd, London.

INFLATION - ITS TREATMENT IN ACCOUNTS, by B. J. Davis, F.C.A. 78 pp. 8½×5½. 10s 6d net, post free 10s 11d. Gee & Co (Publishers) Ltd, London.

DIARY FOR LAWYERS, 1954. Sixty-second edition by D. Boland, M.B.E. lxxxvi+334 pp.+diary for 1954. 8½×5½. 17s plus 3s 2d p.t. Sweet & Maxwell Ltd, London.

HOUSING FINANCE AND ACCOUNTS, by W. L. Abernethy, A.S.A.A., F.I.M.T.A., and A. R. Holmes, M.Sc.(ECON.), A.I.M.T.A. vii+223 pp. 8½×5½. 25s net. Shaw & Sons Ltd, London.

GREEN'S DEATH DUTIES. Second (Cumulative) Supplement to 3rd edition by H. W. Hewitt, LL.B.(LOND.). ix+21 pp. 9½×5½. 5s net, by post 5s 3d. Butterworth & Co (Publishers) Ltd, London.

INTERNATIONAL TRADE STATISTICS, edited by R. G. D. Allen, London School of Economics, and J. Edward Ely, Bureau of the Census, U.S. Dept. of Commerce. xii+448 pp. 9×6. 54s net. Chapman & Hall, London.

ESTATE DUTY: REVIEW OF ANOMALIES—II MEMORANDUM FOR THE BOARD OF INLAND REVENUE

Submitted by the Council of
The Institute of Chartered Accountants in England and Wales

Section 55

(35) Section 55 applies to companies under the control of not more than five persons (as now defined for the purpose of assessment of a company to sur-tax under Section 245, Income Tax Act, 1952) at any time during the five years before the death of a person to whom any *one* of the following three conditions applied:

(a) If at any time during the said five years the deceased had the control of the company.

or

(b) If for any period within the said five years the deceased was entitled to more than half of the aggregate dividends declared and debenture interest (if any) accrued.

or

(c) If at any time during the said five years the deceased had a beneficial interest in possession in shares or debentures amounting in the aggregate to one-half or more of the aggregate nominal amount of shares and debentures and no one other person had at that time the control of the company.

The first part of this memorandum was published in our last issue.

The section does not apply to any class of shares or debentures in which dealings in the ordinary course of business on a stock exchange in the United Kingdom have been recorded during the year ending with the death of the deceased.

(36) Where Section 55 applies the value of the company's assets including goodwill (less liabilities as defined) at the date of death is taken as the value of all the company's shares and debentures; and the shares and debentures passing on death are then valued *pro rata* to the total shares or debentures. Where there are shares and debentures, or different classes of either, the net value of the assets is apportioned between them having regard to the rights attaching thereto.

(37) Where Section 55 applies the Inland Revenue must proceed thereunder with no option to follow the normal method of valuation laid down by Section 7 (5) of the Finance Act, 1894. The basis of valuation under both sections is the price which in the opinion of the Commissioners the property would fetch if sold in the open market at the time of the death of the deceased; but the essential difference between the two sections is that under Section 7 (5) it is the shares or debentures which are so valued whilst under Section 55 it is the assets of the company (less liabilities

as defined) which must be so valued. Unlike Section 46, no part of the duty is payable by the company where the valuation proceeds under Section 55. If the conditions applicable to both Section 46 and Section 55 exist and a higher value would result by proceeding under Section 46 instead of Section 55, the Inland Revenue would be entitled to proceed under Section 46, but as already indicated in this memorandum, it is rare for Section 46 to be invoked.

(38) A number of anomalies arise under Section 55 by reason of the wide terms in which it is drawn, with the result that it applies to shares to which the section is not appropriate. The principal anomalies to which the attention of the Council has been drawn are set out below:

(a) *Minority interest in ordinary shares.* The deceased's holding of ordinary shares may have been considerably less than 50 per cent and yet fall to be valued under Section 55, at a much higher amount than would have been the value under Section 7 (5). This situation can result from a variety of causes, for example:

(i) Where the deceased held debentures which, together with his minority holding of ordinary shares, amounted to one-half or more of the aggregate shares and debentures. Moreover, debentures for this purpose include loans which may have been made for normal purposes such as to finance expansion or to provide temporary accommodation during a difficult period. A specific example submitted to the Council is that of a company having a share capital of £10,000, of which the deceased held only £2,000. Within five years before death the deceased had made a temporary loan of £7,000 to the company to meet a temporary position of financial difficulty. This brought the section into operation because the deceased had an interest in £9,000 (capital of £2,000 and loan £7,000) out of the aggregate capital and loan of £17,000. Under Section 55 the valuation of the 2,000 shares was £8 per share. The market value between a willing buyer and a willing seller was £2 per share.

(ii) Where the deceased held a minority of ordinary shares in his free disposition but also held an interest in settled shares, not liable for duty on his death, making his aggregate interest one-half or more. Thus the deceased might have held 10 per cent of the ordinary shares and had an interest in 40 per cent under a settlement made by his deceased wife and charged to duty on her death. For the purpose of Section 55 he had an interest in 50 per cent and accordingly Section 55 applies for the valuation of his 10 per cent holding. Moreover, the requirement to take into account shares held in trust is interpreted by the Inland Revenue in such a way as to bring Section 55 into operation on the death of any one of several beneficiaries (or indeed on the death of each of several beneficiaries). Thus, if trustees hold 60 per cent of a company's capital on trust to divide the income equally between

five beneficiaries, then on the death of any one of the five regard would be had to the 60 per cent holding in which he had an interest (thereby bringing Section 55 into operation) and not to the deceased's 12 per cent interest in the income.

(iii) Where the deceased held preference shares and/or debentures and during any one of the five years before death no dividend was paid on the ordinary shares or the dividend paid was small in relation to the preference dividend and/or debenture interest. In such circumstances the preference dividend and/or debenture interest to which the deceased was entitled for the year in question may have amounted to more than one-half of the aggregate dividends and interest, thereby bringing the section into operation and resulting in a minority holding of ordinary shares being valued accordingly. In connection with this situation it will be appreciated that the passing of an ordinary dividend, or the payment of a small ordinary dividend, may well be the result of a trade recession or of the need to conserve the resources of the business for expansion or for maintaining the business in a period of rising prices.

(iv) Where the deceased had 'control' of the company by reason of his right to a casting vote in the capacity of chairman of a board consisting of two directors.

(v) Where the deceased had control of the company by virtue of voting powers attaching to preference shares. It would be sufficient for this purpose if the voting powers attaching to preference shares had, at any time during the five years, become effective merely because of arrears of dividend. Moreover, it would seem that if the deceased had a majority of the preference shares and would therefore have control of a meeting of preference shareholders in connection with a resolution to wind up, he would be regarded as having control of the company for the purpose of Section 55.

(b) *Quoted shares.* The exception for shares dealt in on a stock exchange is restricted to a stock exchange in the United Kingdom. Where a company is registered abroad and it is desired to make the shares available to the public, the company would normally wish to seek permission to deal on a stock exchange abroad, but this would not prevent Section 55 from being applied.

(39) Where shares or debentures are valued under Section 55 the assets of the company are not available for payment of the duty except by liquidation of the company, a course which the personal representatives may not have the power to compel. The section is brought into operation if the deceased held 50 per cent of the aggregate shares and debentures whereas a 75 per cent interest in the share capital carrying voting rights is necessary in order to put the company into liquidation. Apart from liquidation, the only ways in which funds of the company can be made available for payment of the duty (assuming that the financial

position of the company permits and that the other shareholders are prepared to co-operate) are:

- (a) The payment of an exceptional dividend. This course may be impracticable and ineffective because of the profits tax liability on the company and the sur-tax liability on the recipient.
- (b) The making of a loan to the personal representatives. This may not be permissible under the Companies Act; but even if there is no objection on that ground the course may be impracticable because of the profits tax charge to which it would give rise and the difficulty of repaying the loan.
- (c) A reduction of capital by repayment, with permission of the Court. Here again, the resulting profits tax liability may make this course impracticable.

(40) The preceding paragraph deals with the difficulty of finding the money to pay the duty on shares valued under Section 55. These payment difficulties illustrate the anomalous nature of the section. The section assumes that the assets of the company were in effect the assets of the deceased, available to him for his personal use, whereas in fact the personal representatives may often have no effective control over the assets of the company and even if they do have effective control they cannot use the company's funds for payment of the duty except by liquidation of the company or by transactions which may attract heavy charges to profits tax and sur-tax (possibly to the extent of making the transactions ineffective for the purpose of meeting the duty).

SUBMISSIONS

- (41) *Section 55 of the Finance Act, 1940, should be amended so that it would not apply unless in the opinion of the Commissioners of Inland Revenue (subject to an appeal to the Courts) the deceased had been able to manipulate the profit and/or dictate the dividend policy of the company and had so exercised his powers as to cause an artificial debasement of the going-concern value of his interest in the company.*
- (42) *If the submission in the preceding paragraph is not adopted, Section 55 of the Finance Act, 1940, should be amended in the following respects:*
 - (a) *Anomalies such as those referred to in paragraph (38) (a) should be removed.*
 - (b) *The exemption for quoted shares and debentures should extend to those dealt in on any overseas stock exchange recognized for this purpose by the Commissioners of Inland Revenue.*
- (43) *Paragraphs (38) to (42) deal with anomalies which result in Section 55 being applied to shares to which it is not appropriate. Apart from these anomalies*

assets and that that is the valuation on which estate duty is to be paid. But I am informed that that is not the case, because assets are valued not just as physical assets but as the assets of that particular company. If it can be shown that the valuation reached by a valuation of assets puts a greater value on the total shares of the company than is justified by the earnings record and profits prospects of that company, then allowance is made by the Estate Duty Office for what is called negative goodwill. I may say that that is an expression with which Treasury Ministers are very familiar.

'The point is that it is not purely the value of the assets as assets, but the value of the assets in the light of the position of the company, which is taken as the basis of the valuation under Section 55.'

The basis outlined in that statement is not, according to the experience of members of the Institute, in line with the attitude hitherto taken by the Estate Duty Office. The Council considers that it is the proper basis and its adoption in future would represent a distinct change of attitude which would enable valuations to be agreed on a much fairer basis than has often been the case in the past. The Council therefore regrets to find that members of the Institute dealing with specific cases are being informed that the Chancellor of the Exchequer is taking the view that the Economic Secretary's statement was dealing with the case where the valuation is made on a going-concern basis and it 'did not purport to override the general legal position under which the valuation would be made on a break-up basis if a hypothetical sale on that basis would realize a higher figure'. This interpretation seems to remove the substance from the Economic Secretary's statement.

- (b) *Break-up value.* The Estate Duty Office takes the view that it is entitled under Section 55, to take either a break-up value or a going-concern value, whichever is the higher. The Council considers that for a going concern a higher break-up value should be disregarded. Where a break-up value is appropriate, deductions should be allowed in respect of all the consequences of a liquidation, including losses on realization of stocks and debts, the expenses of liquidation, and taxation adjustments. In particular, deductions should be allowed for additional income-tax which would be payable under the 'cessation' provisions, for balancing charges and for the amount of profits tax which would become payable on a distribution to proprietors of the amount which the valuation assumes would be available. The Estate Duty Office appears to regard it as being in the nature of a concession

63·8 per cent of the amount of net assets at balance sheet amounts. Under Section 55, the valuation must be made on the assets basis, with the result that the valuation of the shares must be substantially in excess of what would be the market value if the shares were those of a company having a quotation on a stock exchange. The disparity is even more marked than is indicated by the percentage of 63·8 mentioned above, because the book amounts on which the percentage has been calculated will be considerably less than what would be the values of the assets if calculated as required for Section 55. There appears to be no justification for this serious discrimination against estates which include shares in companies not having a stock exchange quotation as compared with estates including shares which have a stock exchange quotation.

- (d) *Excessive valuation for less than 90 per cent holding.* Under Section 55, the whole of the capital is valued on the assets basis and this valuation is apportioned over the shares, thus arriving at the same value per share for a 10 per cent holding as for a 100 per cent holding. Even if the value so arrived at represented the price at which the shares could have been realized as on the date of death, the price would be appropriate only for a sale of the whole of the shares of the company. It would almost invariably be in excess of the price appropriate to a sale of only part of the shares. The valuation under Section 55 is therefore always excessive unless the deceased held 100 per cent of the capital or had the power to force a sale by the minority holders. In the latter event, it is anomalous that the minority shareholders might be forced to sell their shares in order to enable the personal representatives to realize the deceased's shares at a price approximating to the estate duty valuation.

SUBMISSION

(44) *If the submission in paragraph (41) is not adopted, Section 55 should be amended to remove the valuation difficulties referred to in paragraph (43). Pending the introduction of such legislation, the difficulties should be removed by the issue of a statement by the Chancellor of the Exchequer for the guidance of the Board of Inland Revenue.*

(45) Industrial and manufacturing businesses in the country as a whole have probably not yet felt more than a small part of the full weight of Section 55. Where an estate has included substantial private assets as well as the business, it has been possible to continue the business and pay the duty thereon by realization of the bulk of the private assets. Since 1939, however, it has been virtually impossible to accumulate new private capital out of income, owing to the high rates of income-tax and sur-tax. It can therefore be regarded as certain that the number of estates which in the future will have substantial private assets in addition to a business will rapidly decline. The tendency must therefore be for private businesses to close down or to pass out of the hands of the families which founded them. Indeed, there is plenty of evidence that steps have been or are being taken by the proprietors of many private

businesses to dispose of their interests in order to safeguard their dependants from disastrous consequences. In view of the importance attaching to the continuance of family businesses as an essential part of the national economy, the need for early action will be obvious.

OTHER MATTERS

Relief for Quick Succession

(46) Relief for 'quick succession' (a second death within five years of a previous death) is provided under Section 15, Finance Act, 1914, in respect of any property consisting of an interest in land or a business, but a business carried on by a company is expressly excluded from the scope of the relief. The relief takes the form of a percentage reduction of the estate duty payable, the percentage varying according to the number of completed years since the previous death on which the same property was liable to duty. Quick succession relief is thus available in respect of a business carried on by a sole trader or in respect of a share in a partnership business but it is not available if the deceased's interest in the business was in the form of shares or debentures in a company even though his interest falls to be valued under Section 55. This appears to be anomalous, particularly as Section 55 assumes in effect that the company was non-existent and its assets were at the disposition of the deceased.

SUBMISSION

(47) *The estate duty legislation should be amended so that the quick succession relief provided by Section 15, Finance Act, 1914, would apply to an interest in a business carried on by a company as defined for the purpose of assessment of a company to sur-tax under Section 245, Income Tax Act, 1952.*

Double Charge to Estate Duty and Sur-tax

(48) Where the income of an estate includes income which had accrued at the date of death, estate duty is payable thereon either as a separate item in the probate affidavit or as part of a valuation of the asset including accruing income; but there are no provisions permitting the deduction of such estate duty on accruing income in computing the sur-tax assessments on the persons entitled to absolute interests in the residue of the estate, nor are there any provisions permitting the deduction of their sur-tax liabilities in arriving at the value of the accruing income on which estate duty is computed. In extreme cases therefore, the total charge to income-tax, sur-tax and estate duty could amount to considerably more than the amount on which the charges are made, thus:

	£	s	d
Income-tax	..	9	0
Estate duty, 80 per cent	..	8	9
Sur-tax	..	10	0
Total tax on £1	£1	7	9

(49) It would seem, however, that this double charge should be remedied by amendment of the sur-tax legislation rather than the estate duty legislation. This could be achieved by providing that where income accruing before the death of a person is included in the sur-tax assessments of persons entitled to absolute interests in the residue of the estate, the amount on which sur-tax is chargeable should be

computed by grossing at the standard rate of income-tax the amount of income remaining after deducting income-tax and estate duty. Thus, in the example given above, the sur-tax would be chargeable on the gross equivalent of 2s 3d, namely, 4s 1d on which the sur-tax would be 2s 0½d, leaving the recipient a net sum of 2½d.

Anomalies of a Legal Nature

(50) There are no doubt many anomalies of a legal nature which arise from time to time. For example, the Council is aware of the anomaly which can arise in relation to a pension benefit for a widow following upon the death of her husband who was himself in receipt of a pension from the same source. If the widow's pension is technically a continuation of the husband's pension then a benefit passes on the husband's death and estate duty is chargeable; whereas if the widow's pension is technically a separate pension in which the deceased never had an interest, nothing passes on the death of the husband and no duty is payable. The circumstances are in substance the same, but for purely technical reasons estate duty is claimed in one case and not in the other. This was the subject of a debate in the House of Commons on June 22nd, 1950, when a clause for insertion in the Finance Bill was moved by the member of Parliament who is now the Economic Secretary to the Treasury. The clause was rejected by the then Solicitor-General, who said, however, that he recognized that there is a problem which sooner or later will require to be dealt with, but it would be premature to accept a proposal before the Tucker Committee on Taxation Treatment of Provisions for Retirement had reported.

(51) No doubt matters such as this and other anomalies of a legal nature will be brought to the notice of the Board of Inland Revenue by bodies concerned with legal matters, pensions and other specific aspects of estate duty.

CONCLUSION

(52) This memorandum does not purport to be a comprehensive statement of anomalies arising under estate duty law. The Council has confined its observations mainly to matters concerning valuation and finance, since these are the aspects of estate duty on which members of the Institute can best speak from experience.

(53) The Council has appointed representatives to discuss this memorandum with the Board of Inland Revenue if the Chancellor so desires.

November 4th, 1953. MOORGATE PLACE,
LONDON, EC2.

APPENDIX

Statement published in *The Accountant* *Tax Supplement*, July 22nd, 1944

In the *Tax Supplement*, of our issue of June 19th, 1943, we reproduced a letter addressed by the Council of the Law Society in association with the Council of the Institute of Chartered Accountants to the Chancellor of the Exchequer, making representations upon various difficulties and anomalies in the Finance Acts. In particular, a series of points were mentioned which arose out of Sections 46 to 59 and the Seventh Schedule of the Finance Act, 1940.

In Part VI of the Finance Bill, 1944, provisions have been included to deal with some of the points raised in the original letter to the Chancellor of the Exchequer. The

provisions of this Bill were considered by a special committee consisting of members of the Council of the Law Society and also of members of the Council of The Institute of Chartered Accountants, and a memorandum raising various points upon the provisions of the 1940 Act and also upon the amendments proposed to be made by the Finance Bill, was sent to the Chancellor of the Exchequer.

Before the committee stage of the Finance Bill, a further meeting took place, when Mr Burnett and other members of the Inland Revenue received Sir Randle Holme and Mr Leslie E. Peppiatt, representing the Council of the Law Society, and Mr G. R. Freeman, Mr W. S. Carrington and Mr H. D. Bessemer, representing The Institute of Chartered Accountants. As a result of a very full and useful discussion of the whole position, the following points emerged:

(1) In the opinion of the Inland Revenue, upon the true construction of Section 46 (1) of the Finance Act, 1940, assets of a company could not be deemed to pass on the death to a greater extent than 100 per cent of the value of those assets at the date of death.

(2) Further study would be given by the Inland Revenue to the position of a company – particularly a public company – in respect of whose assets a contingent liability to estate duty would arise on the deaths of persons now living who had made transfers of assets to the company. In this connection it was remarked by the representatives of the Institute that an accountant giving a certificate in respect of the accounts of such a company might be in doubt as to whether he ought not to qualify his certificate in some way having regard to the contingent liability to estate duty.

(3) It was pointed out that if, owing to a reduction in its income, during the three¹ years before the death of a debenture-holder or holder of preference shares who had made a transfer of assets to the company, a company paid debenture interest out of reserves, the result would be that an unduly high proportion of the company's assets would be attributable to the interest in the company of the deceased transferor, and accordingly become liable to estate duty.

The representatives of the Inland Revenue said that they would study this point.

(4) It was agreed that no claim to estate duty arose under Section 46 of the Finance Act, 1940, where a company sustained an aggregate loss during the relevant period, even though benefits were received by the transferor during that period.

(5) The Inland Revenue representatives stated that the provisions of Section 51 (4) of the Finance Act, 1940, as to reasonable remuneration are treated as applying to pensions.

In general, Mr Burnett said that for their part, the Inland Revenue would apply the statutory provisions in a reasonable manner, and he expressed the view that it might be found unnecessary to propose further legislation to deal with questions of detail.

CONTENTS		Page
INTRODUCTION		614
FUNDAMENTAL DEFECTS IN ESTATE DUTY LAW		
Valuation as on the date of death		614
Payment of duty before probate		615
FAMILY BUSINESSES		
Finance Act, 1940		616
Section 46		617
Section 55		639
OTHER MATTERS		
Relief for quick succession		642
Double charge to estate duty and sur-tax		642
Anomalies of a legal nature		643
CONCLUSION		643
Appendix		643

¹ The relevant period is now five years.

DINNER IN DARLINGTON

North Yorkshire and South Durham branch of the Leeds, Bradford and District Society of Chartered Accountants

The fourth annual dinner of the North Yorkshire and South Durham branch of the Leeds, Bradford and District Society of Chartered Accountants was held at *The Imperial Hotel*, Darlington, on Wednesday, November 25th.

The chairman of the branch, Mr A. Henderson, A.C.A., who is also President of the North Yorkshire and South Durham Chartered Accountant Students' Society, presided, and with Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., D.C.L., J.P., F.C.A., welcomed the 82 members and guests who attended.

Among the guests were Mr T. H. Summerson, J.P., H.M. High Sheriff of the County Palatine of Durham, and

Messrs J. C. H. Booth (*President, Tees-side Chamber of Commerce*); C. W. Boyce, C.B.E., F.C.A. (*Past President, The Institute of Chartered Accountants*); C. L. Davies, F.C.A., (*President, The Leeds, Bradford and District Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*); E. Fisker, F.C.I.I. (*Immediate Past President, Insurance Institute of Middlesbrough*).

Messrs H. G. Gibbs (*Chairman, Institute of Bankers, Middlesbrough District*); H. A. Gill, M.A. (Cantab.), F.A.I. (*Chairman, The Chartered Auctioneers and Estate Agents Institute, South Durham and North Yorkshire sub-branch*); F. M. Kellett, F.C.A. (*President, Northern Society of Chartered Accountants*); C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute*); S. A. Middleton, A.C.A. (*Hon. Secretary, Northern Society of Chartered Accountants*).

Messrs E. L. Proud (*President, Durham and North Yorkshire Law Society*); C. Robson, F.C.I.S. (*Chairman, Middlesbrough and District Tees-side branch of Chartered Institute of Secretaries*); E. Duncan Taylor, F.C.A. (*Member of the Council of the Institute*); K. G. Warriner, F.C.A. (*Hon. Joint Secretary, The Leeds, Bradford and District Society of Chartered Accountants*); R. P. Winter, M.C., D.L., T.D., F.C.A. (*Member of the Council of the Institute*).

Concentrated Hard Work

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Summerson. He said that the secretary had been kind enough to send him a copy of the 1952 edition of what could, he supposed, be called the handbook which the Institute published principally for those young people who wanted to enter the profession.

'I like the frank assertions in it to the effect that students must expect several years of concentrated hard work in order to pass its examinations. What a refreshing change from what one has come to regard as the contemporary attitude to work!'

Mr Summerson said that the record of the Institute

common sense, trying to apply common sense to the ordinary problems of the day and trying to keep their clients on the rails so that they knew their position.

'That is all we claim of good accountancy; and it is a big enough claim. There is a risk in these days that when a big issue comes along - high taxation, pension claims etc. - to say "never mind about accountancy". That is a great risk, and I want to mention one or two things in that line which are very much in my mind.

'I want you to think that the accounts we prepare from year to year are, in essence, trying to hold the balance as between one year and another, and to hold the balance between succeeding generations.'

Referring to initial allowances, he said that through pressure, the Government had introduced a scheme of relieving taxpayers called initial allowances, and straight away a spanner was thrown into the works so far as decent accountancy was concerned. It was something that future generations had to pay for, and every prospectus that came out had to deal with this point.

Profits Tax

'An even worse example is profits tax. Instead of having a clean-cut tax on distribution or non-distribution, a Sword of Damocles is left hanging over industry; one does not know what that figure is going to be, and one has to have fatuous notes at the bottom of the balance sheet. We spend hours on our balance sheets trying to make them accurate, and at the end we have to put these silly notes which depreciate the whole of the balance sheet.'

Of depreciation, he said that it was the same sort of thing - taking the benefit now and leaving it for posterity to pay.

'It is not as the result of accountancy that this kind of position has arisen. We are kicked around for not devising some method of dealing with this terrible problem. It is the fault of inflation. Are we to take from profits enough to ensure that the present assets can be replaced out of profits, or are we merely to depreciate on historical costs basis?

'The essential point is whether in this generation we have to hand over these assets in the same form as before, irrespective of the inflation which has gone on. It is an example of trying to help posterity.'

Sir Harold said of pensions:

'To my mind, we are going absolutely mad on pensions. If you give pensions to people, have the courage of your convictions and provide for them in the generation you live in, and do not pass the buck to posterity.

'We live in an age now when governments and others gaily agree on pensions schemes and have not attempted to fund them. They live only for the present. I am urging

BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

ANNUAL DINNER

The annual dinner of the Birmingham Chartered Accountant Students' Society was held at *The Grand Hotel*, Birmingham, on Friday, November 27th.

Mr Denis F. Dodd, D.L., A.C.A., President of the Society, presided, and with Mr E. Gordon Turner, M.C., F.C.A., a member of the Council of the Institute, received the 320 members and guests who included Mr A. B. Waring, D.L., A.C.A., Chairman, Joseph Lucas Ltd; The Reverend R. G. Lunt, M.C., M.A., Chief Master, King Edward's School, Birmingham; Mr Evan Ag. Norton, M.A.; and

Col. J. H. Alexander; Dr E. C. Aspinall, M.B., CH.B.; Messrs R. Aspinall; G. L. Barnes, M.A., A.C.A. (*Deputy Secretary, University of Birmingham*); W. L. Barrows, J.P., F.C.A. (*Member of the Council of the Institute*); T. A. Hamilton Baynes, J.P., M.A., F.C.A. (*Member of the Council of the Institute*); H. R. Bettinson; E. Dinwiddie; R. H. Dodd; W. W. Fea, B.A., A.C.A. (*Member of the Council of the Institute*); H. James Gittoes, J.P., F.C.A. (*Chairman, Birmingham Chartered Accountants Joint Lecture Committee*); F. F. Hickman; Idris Hicks, B.COM., A.C.A.; Stanley Kitchen, F.C.A. (*Hon. Sec., Birmingham and District Society of Chartered Accountants*); F. C. A. Ledsam, F.C.A. (*Vice-President, Birmingham Chartered Accountant Students' Society*); Col. R. B. Leech, M.B.E., T.D., F.C.A. (*Member of the Council of the Institute*); Messrs David Liddell, LL.B.; E. J. Newman, M.A., F.C.A. (*Hon. Sec., Birmingham Chartered Accountants Joint Lecture Committee*); C. E. Prosser; Charles W. Richards; E. C. Turner, T.D., M.COM., F.C.A. (*Vice-President, Birmingham and District Society of Chartered Accountants*); A. E. Webb (*Assistant Editor, 'The Accountant'*);

together with representatives of other chartered accountant students' societies and kindred societies.

On Going into Industry

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr A. B. Waring advised students that they must not think that passing their examinations was the end of things. It was then that they were beginning, and they must keep the end view in mind.

To those who were considering going into industry, he suggested that they could play an invaluable part in administration and they could act as mediators between the designer, production man, and salesman.

The important thing they had to learn was that industrial management was not primarily a matter of dealing with materials and machines, but managing human beings. That meant the workpeople and the rest of the staff; and to learn to handle and understand them, students had to learn first to serve those above them.

Replying, Mr E. Gordon Turner said that although he was chairman of the Institute's examination board, he agreed with Mr Waring that the passing of an examination was not the end of all things.

He had known of only two students who had passed even a single paper with a 100 per cent. But if they made a serious error in practice, it would be little use saying to a client: 'Well, I was 80 per cent right.' (Laughter.)

They would have read with some relief in *The Accountant* that it had been decided to cut some of the reading they were required to do for the Intermediate; it was thereby expected that this examination could be taken after two-and-a-half-years instead of three, thus giving students an additional six months in which to prepare for the Final, the severity of which would not be altered.

On the Subject of Examinations

It would be difficult, said Mr Turner, to add anything on the subject of examinations to that already said by various presidents of the Institute whilst in office. But he thought that what they had said amounted to this:

'The type of candidate the Institute requires is the man who has the ability and the self-discipline to master his subjects and pass his examination within a reasonable period. The whole purpose of the examinations is to weed out the unfit, and there is no intention on the part of the Institute Council that it should be otherwise. There is, however, no intention to keep out of the Institute candidates who are fitted by character and attainments to be its members. On the contrary, the Institute welcomes all such, and has no desire to impose standards in its examinations which are unreasonable or unattainable by the hard-working and intelligent student.'

'The demands made upon chartered accountants increase year by year, and as a result the examinations are not likely to be less difficult, for the examinations syllabuses must keep abreast of the ever-widening knowledge required by our members.'

'The future of the Institute and its ability to serve the public depends not only upon the character and competence of the present members, but, in even greater measure, upon the qualities of those who are now coming into membership or will do so hereafter.'

Proposing the toast to 'The Birmingham Chartered Accountant Students' Society', the Rev. R. G. Lunt, said accountancy had become one of the learned professions and that meant that it was a profession which kept on learning. He advised students to take a wide interest in subjects beyond the bounds of their studies: they would be better accountants for so doing.

Mr A. B. Aspinall, Hon. Secretary of the Society, replied.

The toast to 'The Guests' was proposed by Mr R. M. Brown, committee member of the Society, and Mr Evan Ag. Norton responded.

In his reply to the toast of 'The President', proposed by Mr R. B. C. Waring, Hon. Librarian of the Society, Mr Dodd said that it had been a source of considerable concern to find that many firms did not always give time off to articled clerks to attend students' society functions. But, he said,

'it is sometimes difficult for a principal to remember that there is a student function on a particular day; so don't be afraid to ask for time off.'

Mr Dodd concluded by paying a tribute to Mr Aspinall whose excellent work as secretary—a task which he had undertaken at short notice—was greatly appreciated by the Society.

NOTES AND NOTICES

Personal

MESSRS MCGILLIVRAY, LOWE & Co, Chartered Accountants, of 130 Mount Street, London, W1, and Leicester, announce that they are taking into partnership on January 1st, 1954, Mr FRANCIS ANTHONY BARRAGAN, A.C.A., who has been with the firm since 1939. The style of the firm will remain unchanged.

MESSRS BOURNER, BULLOCK & Co, Chartered Accountants, announce that they have removed from 36 Derby Street, Leek, Staffs, to Ford House, Leek, Staffs.

MESSRS WILDING, SLADEN & Co, Chartered Accountants, announce that they have moved to new offices at 56 Buckingham Gate, London, SW1. Telephone: Tate 3312/3.

MESSRS DUNN, WYLIE & Co, Chartered Accountants, of 5 Drapers' Gardens, London, EC2, announce with regret the sudden death of their partner, Mr HUGH WYLIE, C.A., which occurred on November 29th.

MESSRS OGDEN, HIBBERD BULL & LANGTON, Chartered Accountants, announce that as from December 1st, 1953, they have taken into partnership Mr W. R. C. OGDEN, A.C.A. - the elder son of Mr W. E. OGDEN, F.C.A. - and Mr J. A. POTTER, A.C.A., both of whom have been on their staff for a number of years. Mr W. R. C. OGDEN is a great-grandson of Mr W. T. OGDEN, the founder of the firm, and represents the fourth successive generation of his family to become a partner.

MESSRS LOWE, BINGHAM & THOMSONS, Certified Public Accountants, of Japan, announce that Mr D. J. BENSON and Mr E. J. V. HUTT are retiring from the Kobe firm, which will be continued by Mr W. LACKIE under the firm name of LOWE, BINGHAM & LACKIE at Kobe and Osaka. Messrs LOWE, BINGHAM & THOMSONS will be continued at Tokyo by the present partners.

Professional Notes

Mr Kenneth Winckles, M.B.E., A.C.A., who joined the J. Arthur Rank Organization in 1947, has been appointed assistant managing director of Circuits Management Association Ltd, the company controlling Odeon and Gaumont-British cinemas.

Mr R. J. Austin, A.C.A., A.C.W.A., secretary of Newbold & Burton Ltd, has joined the board of the company as from December 1st, 1953.

Mr R. G. R. Marshall, A.S.A.A., has been elected a director of James Howell & Co Ltd, of Cardiff.

Mr G. S. C. Harper, A.C.A., who has been secretary of the Cork Manufacturing Co Ltd for some years, has joined the board of that company.

Obituary

SIR THOMAS KEENS, D.L., F.S.A.A.

We announce with regret the death on November 24th at his home at Luton, of Sir Thomas Keens, D.L., F.S.A.A., senior partner and founder of the firm of Keens, Shay, Keens & Co.

Sir Thomas, who was 83 years of age, founded his firm in 1894 and right up to the time of his death had been an active partner. Admitted to membership of The Society of Incorporated Accountants and Auditors in 1901, he was elected a member of the Council in 1922 and was President from 1926 to 1929.

Throughout his life Sir Thomas had been interested in local government and had held prominent positions in this sphere ever since his election in 1901 to represent Luton North Ward No. 1 on the Bedfordshire County Council. He became an alderman in 1919 and was re-elected continuously until 1949. From 1935 until his retirement last year he was chairman of the council and for many years had been chairman of the finance committee and a member of the standing joint committee.

In 1922 he contested Aylesbury as the Liberal candidate, but was unsuccessful. In the following year, however, he was elected and sat in the House of Commons until the General Election of 1924. He received his knighthood in 1934.

LEONARD CHARLES BEECROFT, F.C.A.

It is with regret that we record the death on November 24th, at the age of 66, of Major Leonard Charles Beecroft, F.C.A., senior partner in the firm of Nicholson, Beecroft & Co, Chartered Accountants, of London.

Educated at Bedford School, Major Beecroft was admitted an Associate of the Institute in 1909 and became a partner in his firm in that year. After service in the Army during the First World War, he returned to his practice and was elected a Fellow of the Institute in 1919.

In 1927 he was elected to the Court of Common Council of the City of London and served for a number of years as chairman of the Rates Finance Committee. On his retirement from the chairmanship in 1938, a luncheon was given in his honour at

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Guildhall. He had been a Commissioner of Taxes since 1942 and one of Her Majesty's Lieutenants for the City since 1935.

Savoy Hotel Ltd

Mr J. B. Lindon, O.B.E., Q.C., whom the Board of Trade appointed as inspector under Section 172 of the Companies Act, 1948, in relation to Savoy Hotel Ltd shares, has made an interim report. The report observes that in the case of a large public company it is not impossible for members controlling 30 per cent or even only 25 per cent of the effective voting power to have *de facto* control. At any rate they may be in a position materially to influence the policy of the company. Most of the remainder of the interim report is taken up with a review of recent dealings and negotiations concerning the company's shares.

London and District Society of Chartered Accountants

'The valuation of minority holdings in private companies for the purposes of estate duty' is the title of the lecture to be given next Tuesday by Mr L. C. Graham-Dixon, Q.C.

The meeting will be held in the Oak Hall of the Institute and will commence at 6 p.m.

Manchester Society of Chartered Accountants

The next meeting in the 1953-54 programme of the Manchester Society of Chartered Accountants is to be held at 6 p.m. on December 14th at the Chartered Accountants' Hall, 60 Spring Gardens, when Mr H. B. Vanstone, F.C.A., will speak on 'The valuation of shares'.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Wednesday, 6.30 p.m. (at Grosvenor House, Park Lane, W1): Annual dinner.

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students. *5.15 p.m.*: Introductory course lectures on (1) 'Audit practice and methods'; (2) 'Taxable income'. *11 p.m.* (at The Royal Festival Hall Restaurant): Students' dance.

The Institute of Internal Auditors

LONDON CHAPTER

The London Chapter of The Institute of Internal Auditors held a one-day conference on November 28th at *The Kingsley Hotel*, London, WC1. At the morning session, with Mr R. A. Reid, C.A. (President), in the chair, there was a discussion on 'Internal

audit' which was based on a study of the pamphlet issued in August 1953 by The Institute of Chartered Accountants in England and Wales.

In the afternoon, with Mr A. H. Abbot (Vice-President) presiding, a discussion on 'Insurance and the internal auditor' was introduced by Mr S. A. Cropper, A.C.A., and was followed by addresses by two members on 'Case studies of frauds'.

The Association of Certified and Corporate Accountants

EDINBURGH AND EAST OF SCOTLAND BRANCH ANNUAL DINNER

The annual dinner of the Edinburgh and East of Scotland Branch of The Association of Certified and Corporate Accountants was held at *The Caledonian Hotel*, Edinburgh, on Friday, November 27th, with Mr William K. Geddes, F.A.C.C.A., President of the Branch, in the chair.

The principal guests included The Rt. Hon. Sir James Miller, LL.D. (*Lord Provost of the City of Edinburgh*), and Lady Miller; The Rt. Hon. Lord Latham, J.P., F.A.C.C.A. (*President of the Association*); The Rt. Hon. Lord Blades (*Lord Ordinary of the Court of Session*) and Lady Blades; Sir Ernest Wedderburn (*Deputy Keeper of H.M. Signet*) and Lady Wedderburn; Mr John L. Somerville, C.A., F.R.S.E. (*President of the Institute of Chartered Accountants of Scotland*), and Mrs Somerville; Mr C. T. Nightingale, J.P., S.S.C. (*President of the Society of Solicitors in the Supreme Courts*), and Mrs Nightingale; Mr Festus Moffat, O.B.E., J.P., F.S.A.A. (*President of the Scottish Branch of the Society of Incorporated Accountants and Auditors*), and Mrs Moffat; Mr W. Macfarlane Gray, F.A.C.C.A. (*Vice-President of the Association of Certified and Corporate Accountants*), and Mrs Gray.

The toast of 'The Association and the Edinburgh and East of Scotland Branch' was proposed by Mr Nightingale and replied to by Lord Latham. That of 'The Guests' was proposed by Mr Macfarlane Gray, with the response by Mr Somerville.

Our Contemporaries

THE ACCOUNTING REVIEW. (New York.) (October.) 'The genesis of cost control', by Paul Crossman, Associate Professor University of Omaha.

THE CHARTERED ACCOUNTANT IN AUSTRALIA. (Sydney.) (September.) 'Revival of state income taxation powers, some constitutional aspects', by C. G. Wanstall, Barrister-at-Law.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 7TH, 1878
Institute of Accountants

We notice . . . that the Council of the Institute of Accountants are about to apply to Parliament for leave to introduce a bill for incorporating the Institute.

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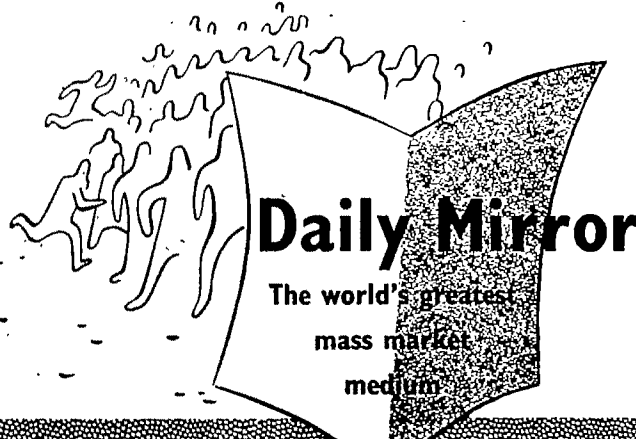
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OFFICIAL NOTICES

Peterlee Development Corporation

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Applications are invited from qualified accountants for the above post in the Chief Finance Officer's department. Superannuation. House available in the new town. Applications, giving the names of two referees, should be received by December 14th, 1953.

A. V. WILLIAMS,
General Manager.

Shotton Hall,
Castle Eden,
Co. Durham.
November 24th, 1953.

A short course on OFFICE METHOD AND MANAGEMENT, will be held at the North-western Polytechnic, Prince of Wales Road, London, NW5 (GUL. 1155) on Monday afternoons from January 18th to April 5th, 1954.

The course is designed to introduce office managers and supervisors to clerical work study and other aspects of office management.

Details and nomination forms are available from the Head of the Department of Commerce and Professional Studies.

National Coal Board

Applications are invited for the appointment of an ACCOUNTANT to take charge of developments in Management Accounting in the Durham Division with headquarters at Newcastle upon Tyne.

Initially the duties of the post will be in connection with the Board's Coke Oven and Ancillary Plants. The successful applicant will be responsible for organizing the extension of Budgetary Control Procedures and Standard Costing techniques. The possession of a recognized accountancy qualification is essential. Applicants must be prepared to travel extensively throughout the division. The post is pensionable and salary will be within the Board's salary ranges according to qualifications and experience, with a minimum commencing salary of £1,045.

Applications, stating age, qualifications, experience, etc., should be submitted by December 14th, 1953, to the Divisional Establishments Officer, National Coal Board, Durham Division, 'D' Floor, Milburn House, Newcastle upon Tyne, 1.

Her Majesty's Colonial Service
East Africa

Vacancies exist for ASSESSORS OF INCOME TAX in the East African Income Tax Department. The duties mainly consist of the computation and assessment of those income-tax cases in which the taxpayers' returns are supported by profit and loss accounts and balance sheets. Initiative and intelligent anticipation are called for, and the work provides a variety of interest.

The salary scale is £550 rising to £1,320 by annual increments and the point of entry is £620 per annum at age 22 or over. In addition a cost-of-living allowance is payable at the rate of 35 per cent of basic salary, subject to a maximum of £350 per annum. An outfit allowance of £30 is also payable. Income-tax is payable at local rates which are substantially lower than in the United Kingdom.

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10 per cent of salary, subject to a maximum of £150. Leave terms are generous.

Applications are invited from University Graduates possessing at least a second class honours degree. Successful candidates would be placed on the pensionable service of the East Africa High Commission subject to a probationary period of two years. They will be given a two years' specialized training course in accountancy and income-tax law and practice in Nairobi, and thereafter be liable to serve in Kenya, Uganda or Tanganyika.

Further particulars and an application form may be obtained from the Director of Recruitment (Colonial Service), Colonial Office, 2 Sanctuary Buildings, Great Smith Street, SW1, quoting reference CDE.92/88/03.

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by JOHN G. SIMPKINS
(Chartered Accountant)

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The second is to suggest how some of the more advanced problems following in the wake of an inadequate book-keeping system may be resolved.

The greater part of the book is taken up by an outline of the procedure generally adopted in incomplete record cases, followed by a detailed consideration of the work to be undertaken.

The text is amplified by a number of useful illustrations. The publication of a second edition has afforded an opportunity to bring the work up to date and, in one or two instances, to amplify the text.

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The Accountant

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CONTENTS

Leading Article	Page
Estate Duty Reform	649
Lecture	
Public Issues: Preliminary Considerations for Private Companies: by C. H. Scott, Solicitor	651
Weekly Notes	658
Finance and Commerce	660
Correspondence	664
Taxation Cases	666
The Institute of Chartered Accountants in England and Wales	
Meeting of the Council	668
Appeal Committee	669
Liverpool Society of Chartered Accountants	
Annual Dinner	669
The Nottingham Chartered Accountant Students' Society	
Annual Dinner	670
Dinner in Exeter	
Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants	671
The Institute of Chartered Accountants in Ireland	
Revision of Examination Syllabus	672
Meetings of the Council	673
Reports of Public Companies: <i>The Accountant</i> Annual Award	674
Notes and Notices	
Personal - Professional Notes - In Parliament - Double Taxation Relief - Double Taxation Relief: Ceylon Food Subsidies Temporary Tax - Death Duties - British Transport Commission: Acquisitions Division - The North London Discussion Group of Chartered Accountants - The Chartered Accountant Students' Society of London - Birmingham Students' Annual Dinner - Our Contemporaries - Twenty-five Years Ago - Seventy-five Years Ago	674

ESTATE DUTY REFORM

THE tide of informed criticism of the present state of estate duty law continues to mount. Two weeks ago, we reviewed the Institute's memorandum on the subject, and last week that of the National Union of Manufacturers. This week we have memoranda from the Institute of Chartered Accountants of Scotland, the Society of Incorporated Accountants and Auditors and the Association of Certified and Corporate Accountants. All these memoranda have much in common, both with each other and with the earlier memoranda which we have seen.

The main object of the CHANCELLOR's inquiry is the now notorious Section 55 of the Finance Act, 1940, which provides for the valuation of shares on the 'assets' basis where the deceased had control of the company within the highly artificial definition laid down in the Act. Accordingly, this section is the main target of the three memoranda.

The Scottish Institute would abolish the section altogether, since it so frequently produces quite unrealistic figures. However, if the assets basis is retained, then in the Scottish Institute's view its application should not be mandatory but should be applied at the discretion (subject to appeal) of the Inland Revenue, and only where they are satisfied that the normal basis would not produce a fair value. All three bodies make the point that, in the ordinary case, a 75 per cent holding is needed to bring about liquidation. Thus control, even in the everyday sense of a 51 per cent holding, does not imply a power to control the disposal of the company's assets, still less where there is no control at all in any real sense although the case may still fall technically within Section 55.

The Society would confine Section 55 to cases where the deceased had 75 per cent of the voting power; this on the assumption that its primary suggestion is rejected, namely that the Inland Revenue ought to have to prove to the satisfaction of a fact-finding tribunal that the main purpose (or one of the main purposes) of forming or acquiring the company was the avoidance of liability to estate duty; with rights of appeal by either side to the Board of Referees. The Association recommends that, in the absence of an ascertainable market price, shares in private companies should in principle be valued on a going concern basis, viz. mainly by reference to maintainable earnings, capitalized on the same basis as shares in public companies with similar business, but with a deduction for unmarketability and the possible depreciatory effects of a change in management. Where the deceased owned at least 75 per cent and the shares were sold or the company's assets were realized within, say, two years after the death, the estate duty value should, in the Association's view, be based on the net proceeds, less any income-tax arising from the

disposal. Failing the adoption of these proposals the Association, like the Society, would limit the application of Section 55 to holdings of not less than 75 per cent.

The Scottish Institute points out that Section 55 can at present apply where the deceased made a purely temporary loan to the company within five years of his death and the interest absorbed a high proportion of the company's income. It suggests that in such a case the section should not apply unless the loan was in existence for a stated minimum period. In this connection, the Society gives several concrete examples of cases where the section was brought into play in other circumstances, causing considerable hardship. Thus, where one of three directors failed to be re-elected and was replaced a few days later, it was found that one of the other two directors had a casting vote for those few days and, as he died within five years of the incident, his shares had to be valued on the assets basis by reason of this purely fortuitous happening. Nor was the effective difference trivial; it was a matter of 22s 6d per share on 4,901 shares. Other and no less striking examples are given in detail in the Society's memorandum.

We have previously referred to the statement about the deduction, in a Section 55 valuation, for 'negative goodwill'. The statement was made by the ECONOMIC SECRETARY TO THE TREASURY in the House of Commons on June 23rd, 1953, and it has caused a great deal of comment. The Scottish Institute, like the English Institute, reproduces the statement in its memorandum. It will be recalled that paragraph 43 (a) of the English Institute's memorandum pointed out that the basis outlined in the statement was not, according to the experience of its members, in line with the attitude hitherto taken by the Estate Duty Office. That office was informing the Institute's members that the CHANCELLOR was taking the view that the ECONOMIC SECRETARY's statement was dealing with a valuation made on a going concern basis and

'did not purport to override the general legal position under which the valuation would be made on a break-up basis if a hypothetical sale on that basis would realize a higher figure'.

This interpretation, says the English Institute, seems to remove the substance from the ECONOMIC SECRETARY's statement. On the other

hand, the Scottish Institute, after quoting that statement, observes that it

'suggests that, as is our own experience, the allowance for negative goodwill is made only where this somewhat technical point is known to the deceased's representatives and is pressed to the attention of the Estate Duty Office. It is anomalous that this should be so and we are of the opinion that the basis said to be adopted in practice should be embodied in the statute. . . .

'It seems to us that the result of the stated practice of the Estate Duty Office is that a valuation made under Section 55 produces the same final figure as if it had been made under Section 50 (2) which provides, in relation to valuations under Section 46, that in estimating the principal value of the said assets the Commissioners shall fix the price thereof on the basis of a sale of the business of the company as a going concern.'

The Scottish Institute, the Society and the Association all criticize the effect of the decision in *Re Duffy* ([1949] 27 A.T.C. 324). It is pointed out that large profits earned just before the death and which swell the value of the company's assets for estate duty purposes, will normally attract a heavy charge to income-tax in the following year. Moreover, where assets are themselves disposed of at the estate duty valuation, a charge to tax may arise as a result. Again, the break-up value basis contemplates a liquidation of the company which, if actually carried out, might cause a heavy charge in the shape of withdrawal of non-distribution relief granted for profits tax. The Society also makes the point that to increase the profits tax liability on account of forced withdrawals to pay estate duty is unfair.

In commenting on the English Institute's recommendation that quick succession relief be extended to cases where a business was owned by certain companies, we suggested that the same might well be done in the case of land as well as business. The Scottish Institute, the Society and the Association each favour this wider extension.

The recommendation of the Scottish Institute is that the quick succession relief, the spreading of payment of duty on real property and the lower rates of duty for agricultural property should all be extended to include cases where these special assets are held by a company, the shares in which are being valued on an assets basis. It is arguable that an assets basis valuation should not be necessary to qualify for this extension; otherwise cases might arise in which the Section 55 basis yielded less duty.

PUBLIC ISSUES PRELIMINARY CONSIDERATIONS FOR PRIVATE COMPANIES

by C. H. SCOTT, Solicitor

I SUPPOSE every practising accountant and every solicitor is faced from time to time with the problem of the private company owned by one, or two, or perhaps a few individuals, and the effect which estate duty will have upon their estates. Sometimes, in addition to the estate duty question, the private company also wishes to raise more money to finance its expanding business.

Each of these cases which confront us will differ from one another in various respects but there are many considerations which will apply to nearly all of them.

The title of this talk is 'Public issues: preliminary considerations for private companies'. It is not, therefore, within my province to deal with the cases where the shareholders of a private company propose to raise money privately, for example, from one or more of the insurance companies or investment trusts or similar institutions; nor is it within my province to discuss the detailed provisions of Section 55 of the Finance Act, 1940, which gives rise to the most serious estate duty problems.

Practical Considerations

My talk is intended to cover the preliminary stages of public issues before the prospectus, and to deal with the practical considerations which arise and the steps which have to be taken between the time when the private company first starts thinking about marketing its shares or raising additional capital and the later date when the prospectus itself comes to be issued.

I expect most of what I have to say is familiar to many of you and I must, therefore, apologize in advance if I seem to be commenting on matters of general knowledge about which you know at least as much as I do. Moreover, many of the practical problems which face a client in considering the making of a public issue are matters of accountancy. The functions of the lawyer and the accountant advising the client frequently overlap. I hope you will not think I am presuming to advise you about accountancy matters which are more within your knowledge than mine.

Before I begin the subject proper, I ought perhaps to make it clear that in referring to a 'public issue', I mean the arrangements whereby the shares or other securities of the company first become available for purchase by the public on the Stock Exchange, whether by means of a public offer for sale or by a placing.

Whether to make a Public Issue or not

The first question to consider is in what cases should a public issue be made and a quotation obtained for the company. Does the client want – or feel that he ought – to make a public issue, and if so, is the company one for which a public issue is possible? The two main points that arise, I think, are first, the question of control; secondly, the question of the valuation and size of the business, including its profits record and prospects.

Most clients, I find, are very much concerned with the question of control. They explain that the business has been in the hands of the family for years; they do not like the idea of a change; they do not want to have policy dictated by others; a competitor might buy up their shares in the market; and similar arguments.

The problem which faces our clients, however, is usually that they own the equity capital of the company. It is that often exceedingly valuable but non-marketable equity capital which comprises the chief part of their private fortunes, and which, because of its high value, will involve their estates in liability for estate duty at the present appallingly high penal rates; and the duty will have to be found in cash.

Of course, if a company capitalizes reserves and makes a bonus issue of preference shares, and these preference shares are then sold either publicly or privately, that achieves two objects; it provides the vendors with cash and reduces the value of the ordinary shares retained. And the ordinary share control remains unaffected.

However, although that may help, the client is often in a position where it has become very desirable for him to obtain a Stock Exchange quotation for his ordinary shares also.

First, there is the immediate advantage that a quotation – provided certain minimum dealings take place – removes the shares from the ambit of Section 55 of the Finance Act, 1940, which, if applicable, means that the shares are valued for estate duty purposes on the basis of the actual value of the underlying assets of the company, including goodwill, regardless of the yield which the shares may be expected to give after making proper provision for depreciation which is the basis on which the market or a possible purchaser would value them. Secondly, a quotation means that the value for estate duty purposes is fixed without any delay or discussion with the Estate Duty Office at the market price at the date of death, and the executors normally will not have great difficulty in realizing on the market enough shares to meet the estate duty. The danger that the estate duty payable on the shares may exceed any price that the

executors can get for them, will have been removed. Thirdly, a company ceases to be liable to a direction for sur-tax under Section 245 of the Income Tax Act, 1952, if not less than 25 per cent of the issued share capital is in the hands of the public and is quoted on a recognized Stock Exchange, again provided certain minimum dealings take place.

It seems to me that those tangible advantages greatly outweigh, in most cases, the somewhat exaggerated fear of the results of not retaining complete control. To obtain a quotation the vendors must be prepared to make 20 or 25 per cent maximum of their shares available, if required, for the market. When one or two individuals who have hitherto owned 100 per cent of the ordinary capital of a company, part with up to 25 per cent of it, their position of control has probably, from the practical point of view, not been affected at all.

Size of the Business

Secondly, the size of the business. Is it big enough to stand on its own feet in the market? Clearly some companies are too small to make it worth while considering putting them on the market, partly in view of the disproportionate expense which would be involved and also because even if you could find some responsible people to sponsor the issue, there could never be any real market in the shares. In such a case it may be better for the shareholders or the company to obtain their finance privately; it should, however, be remembered that if a quotation is obtained on the London or a provincial Stock Exchange, then even if there is no real market, provided there are certain minimum dealings on such Stock Exchanges the liability to valuation under Section 55 of the Finance Act, 1940, is removed.

There is no inflexible rule as to the minimum size of the assets and of the past profits record before a public issue can be made. Sometimes it is possible to amalgamate two or more companies carrying on complementary businesses and introduce them to the public as a joint new company, either through the formation of a holdings company or by one acquiring the other. A fair general rule is that unless a company can show net tangible assets of not less than £150,000 and preferably £200,000 or more, and show a profit record averaging for the last five years not less than £30,000 per annum and preferably not less than, say, £40,000, it is not yet ripe to be introduced to the market. Even those figures are small – especially for the London Stock Exchange.

With regard to the assets, there is no general rule about whether before a public issue there should be a professional valuation of the land and buildings and plant.

If there has been no recent valuation, and the land, buildings and plant are to form the security for an issue of loan capital, but they appear in the company's accounts at a written-down figure having no relation to their real present value, then unless there is an adequate margin of cover, the issuing house sponsor-

ing the issue will probably require such a valuation – to support the capital structure involving the issue of loan capital. On the other hand the expense and time involved in such a valuation will not be incurred unnecessarily.

Estimate of Future Maintainable Revenue and Dividend

Perhaps more important than establishing the real value of the fixed assets is the estimate of future maintainable revenue and future dividend. The dividend will govern the market price and the Stock Exchange require the directors to give a forecast of the future dividend. The directors, or some of them, are usually the vendors. They know the trading conditions and trends of the particular business, what reserves will be required, the amount needed for working capital, what capital commitments will have to be met and how they will be financed, and similar matters. They must make their estimate, taking into account all these factors, of what the maintainable revenue will be and how much of it can be distributed in dividend. It is in the light of this estimate that the capital structure will be determined and the price which the issuing house will offer to the vendors.

Record of Past Profits

The record of past profits, especially those of the last two or three years, will necessarily be taken as a guide to the future. The directors' estimate as to the results since the date of the last accounts is therefore of the greatest importance. If the current year is nearly completed, the directors should be able to be fairly definite in their estimate; if they are in doubt, it may well be the best course to postpone the issue until the results of the year are known. If, since the date of the last accounts, some adverse change in the company's business has occurred, or orders have fallen off compared with the corresponding period of the last two or three years, if any other adverse factor is known to the directors and the effect on the company's future profits cannot be assessed with reasonable certainty, then in any such case however good and steady the past profits may have been and however valuable the company's assets, the issue should be postponed until the decline in profits has been arrested and the earnings position has become stabilized. The directors must have some foundation on which to base their estimate. They must not only think that the results will be what they foretell; they must have grounds for so thinking. The directors will of course consult the company's auditors with regard to current prospects, especially in cases where they are in doubt. The estimate for the future is the most important preliminary consideration before a public issue; its importance can hardly be exaggerated.

Issuing House and Brokers

In every case my advice to the client is to consult in the early stages a firm of brokers or, especially where the amount involved is substantial, an issuing house.

A firm of brokers must be appointed by the company in every case where a public quotation is required and frequently the brokers will undertake the underwriting of the issue and attend to the marketing arrangements.

In the bigger cases, however, the issuing house will fill a role which is outside the range of most firms of brokers and they have an experienced staff able to handle the work involved. The issuing house will advise as to the form of capital structure and undertake the initial marketing. Moreover, the company's relationship with an issuing house is likely to be of great and continuing advantage to the company. If it should need further finance in the future it will have a friend in the City ready to advise and assist it in raising such finance in the best way. The issuing house will frequently take a block of shares, in cases where such shares have to be realized and the market price would be upset if the shares were to be put on the market all at once. In the first instance their most valuable service is in advising on the best form of capital structure.

Capital Structure: Dividend Policy and Price of Issue

It is impossible to generalize as to what should be the capital structure of a company but I will mention some of the points which arise for consideration.

Obviously one must first decide what estimated maintainable revenue is available to service the capital, including a dividend on the ordinary shares, and that estimated figure will in all cases be the governing factor.

The question is also affected by whether the company itself wishes to raise some more money or the reconstruction of the capital is merely to enable the vendors to market their shares.

Having decided what is the estimated maintainable revenue, is the capital to be wholly in ordinary shares or are there to be loan capital and preference shares also? If there is to be loan capital, should it be secured or unsecured? Secured loan capital could probably be issued at a lower rate of interest but would it affect the company's day-to-day bank borrowings for working capital? Can the company meet the future redemption obligations out of its taxed profits without being unduly hampered?

Will the company require further capital in the near future? If so, would it not be best to defer the issue of loan capital so that the way is clear to issue it in the future in case when the need for finance arises, market conditions are not propitious for an issue of shares?

Should there be preference shares and, if so, what rights should they have? Are they to be redeemable or not?

Will the prior ranking capital still permit a large enough ordinary capital to make a reasonable market?

Whether to Form New Company

It will also be necessary to consider whether the existing company is to be used or whether a new

company must be formed. Perhaps the majority of cases are companies with a small ordinary capital with large accumulated reserves. In such cases the company will capitalize reserves and create new shares which are issued to the shareholders, renounced in favour of the issuing house or sponsoring brokers and offered to the public. If more money is also required by the company, the issuing house or brokers will subscribe for more shares and include the shares in the public offer.

A capitalization of reserves will usually require the consent of the Capital Issues Committee, and I understand that committee is not in favour of allowing a company to create redeemable, as opposed to non-redeemable, preference shares, on a capitalization of reserves, and practically never agrees to the creation of debentures on such capitalization.

On the other hand, a new company can be formed with redeemable preference shares and the transaction can often be brought within the exemption contained in the Control of Borrowing Order so that the consent of the Capital Issues Committee would not then be required.

Nevertheless, while there are sometimes advantages in forming a new company with the desired capital structure to take over the assets and liabilities of the existing company, or alternatively a holdings company to take over the shares of the existing company, this may present special problems.

Unless the purchase price payable by the new company consists as to 90 per cent in shares – not cash or debentures – there is no stamp duty exemption and accordingly capital duty of one-half per cent must be paid on all the capital of the new company, and transfer duty of 2 per cent must be paid on the price paid for the assets (other than those passing by delivery) or (as the case may be) on the purchase price of the shares of the existing company. Again, debenture stock of a holdings company is not considered in the market a very suitable security, and the operating company in such cases as long as it continued in existence would normally charge its assets to secure the holdings company's stock.

Where a company parts with all its assets to a new company the first company ceases to trade. This may involve an alteration in the basis of assessment to income-tax, with the result that the old company and the new company may together have to pay much more income-tax than would have been paid if the old company had continued trading.

Sometimes a company has some preference shares carrying a very high rate of dividend or other shares with special or unusual rights with regard to voting or participation in profits or surplus assets on winding up. Such shares will probably have to be converted into ordinary shares or made to rank equally with a new issue of preference shares, as otherwise they would spoil the capital structure proposed. The ordinary shareholders would in such cases have to compensate the holders for loss of their special rights as part of the scheme of reconstruction by renouncing

in their favour some of the new bonus shares issued to the ordinary shareholders. Clients do not always realize that the company itself cannot pay anything to shareholders for giving up any such rights.

I have come across a case where a company had in the past decided to write into its balance sheet an item for goodwill and had issued shares against that item. The company was advised that those shares were issued for no consideration and consequently were not fully paid; in view of that advice obviously it was impossible to market those shares. It was therefore necessary to form a new company to acquire the assets of the existing company though the capital structure was the same. No doubt that is an unusual case to find, but the illustration serves to point out the sort of problems which may confront us when considering what the capital structure should be.

The issuing house or brokers will settle the price at which they will purchase or subscribe for the shares almost at the end of the proceedings, although the general price range will have been mentioned at the beginning. It is important that the client should regard the sponsoring issuing house or brokers as his advisers, rather than as an organization bargaining against him for the best possible terms. The issuing house or brokers know what the proper market price will be, based on the estimated dividend. If you go to an expert it is usually best to accept his advice. Sometimes the paradoxical situation arises where the vendors wish to keep the price low, and the purchasers wish to increase it. The vendors often retain some 75 per cent of the equity capital. In such cases they wish the market value to be low for estate duty purposes and, as they are usually high sur-tax payers, they do not want a high dividend. Such cases, I think, illustrate the saying that the burden of the rich is indeed their wealth. No issuing house, however, would sponsor an issue which, because of an unreasonably small dividend forecast, would result in an unreasonably low market price for the shares. And the vendors will be advised that the aim should be that the ordinary shares should always command a premium in the market, thus facilitating the raising of further capital in the future.

Public Offer for Sale or Private Placing

The question whether the issue should be made by way of public offer or placing is one which will be considered at the outset. From the point of view of the client, placing is a popular form of finance because there is a substantial saving in expense and also in time. The Council of the Stock Exchange, however, are rightly concerned to see that wherever practicable the public have the right to apply for securities at the issue price and that the privilege of obtaining the shares at the original price should not, in cases where there is likely to be a large demand for them, be unfairly restricted to a chosen few.

In view of the disproportionate expense involved in a public offer, however, where the amount offered is comparatively small, many issues must be done by

way of private placing and the Council of the Stock Exchange on the application of the company's brokers will always give permission for a placing where the expense of a formal public offer is not justified. Such permission is always given where the amount is under £250,000, and frequently the privilege is extended to applications for much larger amounts provided that the Council of the Stock Exchange are in each case satisfied with the marketing arrangements.

While the client may be expected to prefer the issue to be made by way of private placing because of the saving in expense as compared with a public offer, nevertheless sometimes the client prefers a public offer because that enables prospectuses and application forms to be circulated widely among his friends and customers and his company gets considerable advertising value which cannot be achieved if the issuing house or brokers place the shares with a comparatively small number of their own clients.

Investigating Accountants

Frequently the issuing house or sponsoring brokers ask a firm of accountants to investigate the company's affairs on their behalf. It seems to me in principle a good idea; just as different lawyers represent different interests when a prospectus is issued, so there are distinct advantages in having an independent firm of investigating accountants experienced in issue work, to make a report, which they always do in close consultation with the company's auditors. Of course, this necessarily adds a little to the time taken over the preliminary work and to the expense, but if I may say so to this audience, I am always impressed how quickly and efficiently investigating accountants in consultation with the company's auditors produce a comprehensive report for the issuing house; and how small the extra expense is in obtaining such report which is of great value not only to the issuing house but also to the company itself.

Sur-tax Clearance

Most of the private companies with which we have to deal are companies liable to sur-tax directions under Section 245 of the Income Tax Act, 1952. Before the company can have its shares marketed, those concerned with the issue will inevitably require to be satisfied that there is no claim for sur-tax hanging over the company. In every case it is necessary to obtain either an official clearance from the Special Commissioners or to rely on an indemnity given by one or more of the vendor shareholders.

I have found clients frequently very reluctant to apply to the Commissioners. There seems to be a feeling that the request for a clearance of itself may result in the Commissioners making a direction which otherwise they would not have made. I think there is not much substance in this objection. If the Commissioners do decide to make a direction I do not believe that their decision is prompted by the fact that a clearance has been asked for. The Commissioners will know in due course when a private company does

become a public company and it is still open to them then to make a direction in respect of earlier years.

The alternative of obtaining an indemnity from vendor shareholders is much less satisfactory. First, it frequently happens that the vendor shareholders are executors. You cannot, I think, expect executors to give an indemnity. Secondly, it frequently happens that there is more than one vendor. I do not think it fair to ask any one vendor in such a case to guarantee the whole of the sur-tax liability which might be imposed on the company and an indemnity from a lot of people according to their various participations in the company is an unsatisfactory and complicated arrangement.

Sometimes the vendor shareholders, who are reluctant to apply for a sur-tax clearance, offer to give an indemnity. I discourage this, principally because it is practically impossible to tell the vendor who offers this indemnity what the maximum amount of his liability under it might be. The sur-tax which may be assessed on the company is based on the income-tax groups of the various shareholders, and may go back for six years; also it may be six years or even longer before he knows the amount of his liability.

In the great majority of cases I think the vendor should be dissuaded from giving an indemnity and a clearance should be applied for as soon as the decision is made to make a public issue. You will have had more experience than I with regard to sur-tax clearances. I can only say that from my experience in the case of a trading company the clearance is usually obtained quite quickly even if the total amount which has been distributed in directors' remuneration and dividend is quite a small proportion of the total gross earnings. Also at the present time we still have the benefit of the assurance given in the House of Commons by a former Chancellor to the effect that normally a sur-tax direction would not be made where companies maintained the distribution they had made in the previous year even if their profits were greater. Of course, I do not suggest that there is anything automatic in it and obviously there are cases where a direction is made. At the same time in such cases it is probable that in due course a direction would have been made anyway, though the vendor shareholders may have been blissfully unaware of the possibility.

Section 46, Finance Act, 1940

Owing to the very wide terms in which this section is drawn, there is another possible liability which should be covered before an issue can take place. As you are aware, the broad effect of this section is that where in his lifetime a person has transferred assets to a company, the Estate Duty Office may, on the death of that person, assess the company for the estate duty payable on the death in question computed according to the rather complicated rules set out in the section. Here there is no machinery for obtaining a clearance as there is in the case of sur-tax and the matter can only be covered by an indemnity. On the

other hand, the estate duty which may be assessed on the company is not levied in the same way as a sur-tax direction would be and is in each case limited to the estate duty payable on the death of each particular vendor in respect of his interest in the company. An indemnity from all shareholders is seldom required, and it is usually easy to see, when one has considered the shareholdings and the history of the company, where there is any appreciable risk that the section would be invoked and to ask for an indemnity from the particular shareholder concerned, the indemnity to be drawn so that it is binding on his estate.

The Council of The Law Society and the Council of The Institute of Chartered Accountants in England and Wales made representations to the Inland Revenue regarding this section early in 1943; the question was raised whether an accountant giving a certificate in respect of the accounts of a company to which the section applied might be in doubt as to whether he ought not to qualify his certificate in some way having regard to the contingent liability to estate duty.

While I do not think there was any official ruling, an assurance was given that the Inland Revenue would apply the statutory provisions in a reasonable manner. So far as I know they have always done so, and provided an indemnity is taken in cases which may be said to fall within the intended ambit of the section, that is all that is required.

Capital Issues Committee

In most, but not all cases of a public issue, the consent of the Treasury is required. First, raising new money. A company may not raise, whether by the issue of shares or loan capital, more than £50,000 in any period of twelve months. Whether an application to raise more money will be granted or not depends entirely on the strength of the case submitted. Any trading company manufacturing goods for, e.g. armaments or for export or doing other work regarded as of national importance, has a better chance of success than a company carrying on, for example, a trade in luxury goods. But the raising of new capital is still strictly controlled. Secondly, Treasury consent is required to the making of a public offer for sale of shares within two years of their issue, if they are shares which were originally issued without the necessity for Treasury consent. This does not often arise in practice and does not present much difficulty.

Thirdly, in connection with any scheme for reconstruction, Treasury consent is required to any issue of shares for the acquisition of shares of another company unless one or other of the companies is to be wound up. When company A. issues shares to the shareholders of company B. in exchange for their shares in company B., then provided A. or B. is to be wound up, no consent is required. No period of time is stated within which the winding-up must be commenced, and up to two years or possibly even longer is considered permissible. Many reconstruction schemes have been framed so as to fall within this

exemption and thus to avoid the delay and uncertainty involved in making application to the Capital Issues Committee.

Fourthly, capitalization of reserves. Any capitalization of reserves up to an amount which (together with the amount raised by any issue of share or loan capital during the past twelve months) exceeds £50,000, requires Treasury consent.

During the war and until, I think, some time in 1946, there was an absolute prohibition against bonus issues. Later, a Chancellor of the Exchequer, who professed ignorance as to what they were and described them as 'rather sinister', relaxed the prohibition and allowed the Capital Issues Committee to permit them but imposed a tax of 10 per cent on the bonus element; happily for everyone this tax did not last long. The attitude of the Treasury to bonus issues has varied from time to time; it seems that at the present time the difficulty of obtaining consent in proper cases has largely disappeared, and applications for permission to capitalize reserves and issue ordinary shares or non-redeemable preference shares are granted comparatively readily.

In every case therefore, the question of Treasury consent must be considered and if it is required, application should be made as soon as the new capital structure has been decided. The office of the Capital Issues Committee are always as helpful as they can be if you wish to discuss any problem with them. I suppose most of us feel that some control over capital investment is still necessary. But perhaps the time has come for the legislation on the subject to be revised, particularly on the question of bonus issues. It is still a criminal offence, rendering the persons responsible and possibly those who aid and abet them liable to imprisonment, to capitalize reserves and create bonus shares in excess of £50,000, without the consent of the Treasury. However unlikely it may be that such a drastic result would follow, some of us may wonder whether such a law is any longer necessary or justifiable.

Articles of Association

When a private company becomes public it will obviously need new articles of association.

Almost always the existing articles are out of date and there are sometimes only one or two copies in existence. It is usually best to adopt a new set. Modern articles based on Table A of the Companies Act which comply with the requirements of the Stock Exchange are more or less standardized and contain nothing to which a client ought to object. I will mention just four points which I think should be considered.

First, the rights of preference shares. It is nowadays always made clear that in a winding-up they have the right to receive their preferential dividend calculated up to the date of payment, whether earned or declared or not, and have preference in the repayment of their capital often at a premium, either fixed or to be calculated according to the average Stock Exchange

prices over a six-months' period before liquidation, but they do not participate further in profits or assets. Unless these points are made clear there is doubt whether on a liquidation the preference shareholders are entitled to any arrears of dividend if it has not been earned or declared, and whether or not they are entitled to participate in surplus.

With regard to their votes, usually preference shareholders have no right to vote at meetings of the company unless their preferential dividend is in arrear for six months or unless a resolution is proposed to repay their capital, or to wind up the company, or adversely affecting their rights. While there is no objection to this, the proper protection for preference shareholders lies in providing that certain things cannot be done except with their consent given by extraordinary resolution passed at a separate class meeting.

It is becoming more the practice when preference shares are offered to the public to provide that the separate consent of preference shareholders as a class is required to any of the following matters: any proposal to increase the number of preference shares; any proposal to repay the preference capital or any part of it; any proposal to increase the amount of the borrowing powers of the directors and of course any proposal altering their special rights.

Secondly, the Stock Exchange require a limit to be imposed in the articles on the amount which the directors may borrow without reference to the shareholders. This maximum amount must be decided in each case according to the needs of the company. Some companies require large seasonal borrowings and in such cases it may be best to exclude bank borrowings in the ordinary course of business. A fair working rule for the average company is to provide that the total amount borrowed by the company and its subsidiaries, whether secured or unsecured, including the contingent liability under any guarantees, should not exceed the issued capital. A reasonable restriction is required but neither the issuing house nor the Stock Exchange will insist on any restriction which might be expected to hamper the company in carrying on its day-to-day business.

Directors' Remuneration

Thirdly, directors' remuneration. I think the articles should always specify the amount of the directors' fees rather than leave the question of their remuneration to be settled each year by the company in general meeting. With regard to directors' service agreements, it is normally provided in the articles of association, that a director must not vote on any contract in which he is interested. It sometimes happens that all the directors are whole-time executive directors and there are no outside directors, and they all have service agreements which run for the same period and expire at the same time. In such cases there is no independent quorum of the board to grant or renew the service agreements.

The law considers that when director A. votes in

favour of director B.'s service agreement and immediately afterwards director B. votes in favour of director A.'s service agreement, it is all part of an arrangement in which both directors are interested and the service agreements are therefore invalid unless ratified by the company. There is, however, a useful article which was first introduced in Table A to the Companies Act, 1948 (the number is Article 84 (4) in Table A), which provides that a director, notwithstanding his interest, may be counted in the quorum and may vote (except on his own contract) at a meeting whereat he or any other director is appointed to hold office. It saves the complication I have just mentioned.

Fourthly, are directors too old at 70? Section 185 of the Companies Act provides that a director who has attained the age of 70 must retire and may not be reappointed except upon special notice being given in which his age is stated. The articles of association, however, may negative this provision.

I think the client's attention should be drawn to this point and if the articles do exclude the operation of the section the fact should be brought to the notice of the shareholders who should, I think, be given the opportunity of voting on that article separately from the rest.

Management

Before a company which has hitherto been managed as a private company can be launched on the public, those sponsoring the issue must obviously ensure that arrangements are made for continuity of management. An issuing house will attach almost as much importance to the quality of the management which is to continue to run the company, as to its past record. Almost invariably, therefore, service contracts must be made, for a period of up to five years or more with at least one and often more of the existing members of the board. The remuneration will have to be fixed at a figure which is reasonable and here it is obviously impossible to lay down any hard and fast rule. It must depend on the size of the company and number of executive directors. The amount which the directors may have been receiving in the past is no guide since when they virtually owned the business it was a domestic affair. On the whole I am much in favour of agreements which give the managing director and perhaps one or two of the key executive directors a salary plus a commission calculated on profits, and a top-hat pension provision. This should be settled in each case fairly early in the proceedings.

A further point arises whether, when the company is to become a public company, the board needs strengthening. It may be that the issuing house will suggest to clients that perhaps they should have an outside director, and this proposal is sometimes resisted. It frequently happens, however, that a person coming in with outside interests is able to bring a different point of view to bear on some of the company's problems. It is a matter which the directors must consider in each case; obviously there

is no general rule except that a board must not be too small in number.

Steps to be taken before a Public Issue

The time involved in collecting the information and arriving at the necessary decisions and then subsequently carrying the scheme into effect varies with each issue and depends upon its size and complexity. It is not therefore possible to give an estimate of what time is normally taken before all matters have been dealt with so that the prospectus can be issued, but one should be prepared to allow two months as a minimum.

It is best in each case to make a list of the steps which have to be taken in chronological order and work out the time-table. No two cases are the same and I will not attempt to draw a specimen time-table. However, I will briefly summarize the various considerations that I have mentioned and deal with the practical steps which have to be taken.

First, whether to make the public issue at all. A draft of the auditors' certificate as to past profits is an essential preliminary to any discussion about a public issue. When a draft has been prepared, meetings must take place between the client and his advisers, that is his auditors, his solicitors, and the issuing house or brokers.

This preliminary stage takes several weeks during which there may be the separate investigation by accountants appointed by the issuing house, and finally the capital structure and terms of any necessary reconstruction scheme are settled.

If Treasury consent is required, the application to the Capital Issues Committee in the prescribed form must then be drafted. This is normally done by the company's solicitors or by the issuing house. It does not matter who actually writes the letter; it is always settled in consultation with the auditors, and of course the client, who must accept responsibility for the statements in it.

The company's auditors will usually apply for the sur-tax clearance.

Preparation of the Prospectus and Other Documents

The next step is the preparation of the documents to give effect to the scheme and the preparation of the prospectus. The drafting of these documents is the responsibility of the company's solicitors, and it is usually best to assume that Treasury consent will be obtained and to start with the preparation of the documents so that there is no avoidable delay after the consent has been obtained. It must always be borne in mind with a marketing operation that market conditions are apt to change and however propitious they may be when the scheme is settled in the first instance, by the time the scheme is ready for completion and the prospectus ready to be published they may have changed, so that the issue may have to be postponed, or the price altered.

It is obviously therefore desirable that there should

be a minimum of time taken and that is why accountants and solicitors always find themselves somewhat harried by their clients in these matters.

The solicitors will then prepare the new articles of association, the notice of meeting and resolutions that will be required to reconstruct the capital and make the bonus issue, the necessary formal board resolutions, the new service agreements with the directors, the agreement whereby each vendor shareholder agrees to sell a proportion of his holding of new shares to the issuing house or brokers and the many other documents which are required for carrying out the scheme.

The articles of association will have to be approved by the Stock Exchange and the company's brokers will submit them to the Share and Loan Department for this purpose.

At the same time, the solicitors will be drawing the first draft of the prospectus.

The prospectus is the joint work of everybody concerned with the issue and the best way after the first draft has been prepared, including a draft of the auditors' certificate, is for round-table conferences to be held at which the document is discussed and gradually built up.

When the Treasury consent has been obtained much of the preliminary work will have been done and it should then be possible to dispatch the circulars and notices of meetings. Obviously, if you can obtain the consent of all shareholders to accept less than the full twenty-one days' clear notice, valuable time will be saved. This is usually possible when there are, say, up to ten or twelve shareholders, but usually it is impracticable to get the consent of all shareholders when there are twenty or more.

The matter is usually completed as soon as the extraordinary general meeting to effect the company reconstruction is held. If a new company is to be formed it will be formed in the first instance as a private company and when the scheme is put into effect it will be converted into a public company and adopt the articles of association which will have been approved by the Stock Exchange.

The issuing house normally attends to the printing and in due course the advertising of the prospectus and application forms. They will also handle the Registrar's work if required; a great help to an overburdened secretary without much previous experience of public issue work. If it is a small issue done by way of a placing rather than a public offer, it is usually the solicitor who is responsible for arranging for the printing and advertising of the necessary statement for information, which for all practical purposes contains the same information as a prospectus.

Disclosure of Material Contracts

One of the requirements of a prospectus is that any material contract entered into outside the ordinary course of business within the last two years must be disclosed. This means that a careful inquiry whether there are any such documents must be made, and they must be produced, copied and made available for inspection with copies to go on the company's file at the Companies Office and to the Stock Exchange.

All the directors must sign the prospectus or authorize someone to do so for them. It would be awkward if at the last moment there was a hitch because one of the directors was unable to be present to sign it. Therefore it is a good plan to obtain from all the directors quite early in the proceedings a signed form authorizing some one or other of their co-directors to sign the prospectus on their behalf in case of illness or other unforeseen event preventing their attendance on the vital day.

The subject of this talk is a wide one and I have necessarily dealt somewhat sketchily with many matters. When a private company becomes public and makes its first public issue, quite a formidable amount of work may be involved. There is no short cut; our clients are taking an important step and accepting considerable responsibility: they are usually treading an unfamiliar path for the first time: on all these matters requiring preliminary consideration they will need advice and guidance so as to ensure that the issue is made in the best way.

WEEKLY NOTES

Appointment of a Secretary to the Institute's Taxation and Research Committee

Since the death of Mr Stanley W. Rowland, LL.B., F.C.A., in 1946, the work of secretary to the Taxation and Research Committee of The Institute of Chartered Accountants in England and Wales has been carried out as part of the duties of one of the Assistant Secretaries of the Institute. In 1950 the continually growing volume of work resulted in the appointment of a newly qualified member as an assistant to the committee for a period of up to three years. This period will soon expire and it is now announced in our advertisement columns that the Council is to

appoint a member of the Institute to deal with the whole of the work of the committee as its full-time secretary. Applicants between the ages of 30 and 40 are preferred.

University Scholarship Scheme

The Council of the Society of Incorporated Accountants and Auditors has announced its intention to promote a university scholarship scheme in the autumn of 1954, when applications will be considered from *incorporated accountants and from accountancy students who declare their intention of qualifying as incorporated accountants.*

The value of a scholarship will be £100 per annum for a period not exceeding three years, and in any one year the number of scholarships current at the same time will be limited to three.

In general, applications will be considered from students about to enter a university, from present undergraduates in special circumstances, and from incorporated accountants who either intend to read for a first degree or, having the necessary academic qualifications, propose to proceed to a higher degree. Candidates who do well in the Society's Intermediate examination and who satisfy the regulations for university entrants will also be considered. All applications will require a recommendation from the head of the appropriate university department and the Stamp-Martin Professor of Accounting.

The Drive against Tax Evasion

The Inland Revenue's anti-evasion drive gathered momentum in the year ended last March. Investigations completed in that year resulted in 9,836 pecuniary settlements for a total of £11,045,412, including £3,865,219 in penalties. For the preceding year the settlements numbered only 4,962 but produced £9,430,396. The Inquiry Branch dealt with 262 of the 9,836 cases and accounted for £2,751,108 of the total haul. In addition to these more serious cases, local Inspectors effected settlement in no less than 136,188 cases of the less serious kind, relating to untaxed interest, allowances, etc. These produced £5,389,215 in tax assessed.

Notifications of bank interest of £15 and above, under the Finance Act, 1951, Section 27, had reached about 1,200,000 by March 31st, 1953, of which half were from the Post Office Savings Bank. These notifications brought to light no less than 330,000 cases of under-assessment or non-assessment, of which 139,000, involving about £7 million tax, were settled in the year 1952-53. It follows that more than half of the total back duty (excluding penalties) arose from these notifications.

These figures form part of the report of the Comptroller and Auditor-General on the Appropriation Accounts of the Revenue Departments for 1952-53¹ published on Tuesday. We hope to review the report and accounts in a leading article next week.

Canadian Tax Foundation

The Canadian Tax Foundation held its seventh annual conference on November 23rd-24th at Winnipeg, when the following subjects were discussed: (1) business income and taxable income; (2) sales tax; and (3) appeal procedures under the income-tax. We are indebted to the Foundation for copies of the three data papers issued before the conference. These constitute very informed articles on the subjects in question. The paper on appeal procedures includes a review of the procedure in England, as well as those in the United States and Canada, and has a section on

the problem of distinguishing between fact and law, the writer of which gives acknowledgment to English sources. In the paper on business income, there is included a brief but illuminating review of the English approach to the problem, with a quotation from a judgment in a case so recent as *Tate & Lyle*.

Egyptian Company Law

When the text of a draft company law was released in Egypt last June it caused a good deal of criticism. An amended draft law has now been made public, but we understand from the *Financial Times* that the new draft remains practically the same in its more important provisions. Thus it will be necessary for 40 per cent of each board of directors and 75 per cent of the salaried employees of each company to be Egyptian, while the Egyptian salaried employees must receive at least 65 per cent of the total monthly salaries paid. The minimum percentage of Egyptian labourers is maintained in the draft at 90 per cent, and they must receive 80 per cent of the total wages paid. However, a company can apply to the Minister of Commerce and Industry for exemption from the restrictions governing salaried employees and labourers and if he does not reply in the negative within two months the exemption sought is automatically accorded.

Forty-nine per cent of the capital of each company is to be reserved for Egyptians for the first month. There are minimum requirements as to share qualifications of directors; one-fiftieth or £E1,000. There are special restrictions where an individual holds more than six directorships or more than two managing directorships. Subject to exemptions, there is to be an age limit for directors of 70. Twenty per cent of the shareholders of a company can apply for an investigation of its affairs.

The text of the draft is being studied by interested organizations.

Adequate Coal Stocks

One of the consequences of this remarkably mild autumn has been the smaller demand than usual for coal, gas and electricity for space heating purposes. So far as coal is concerned, this has meant that stocks are now in an exceedingly healthy state where users are concerned, whereas in the early autumn there was a possibility that there would be difficulty in getting through the winter if the weather were severe.

Stocks were over 19 million tons by the third week in November and it is likely that they will have gone a little higher at the beginning of December. Last year the country faced the winter with coal stocks at the record level of 19.2 million tons and these were not touched until the coal winter was several weeks old. It is beginning to look as though a similar pattern will be followed this year. Certainly, there is now no fear of a coal shortage in the later months of the winter unless there is a remarkable combination of severe, amounting to freak, conditions.

¹ House of Commons Paper No. 12. H.M.S.O. 1s 9d net.

FINANCE AND COMMERCE

Stock-markets maintain a commendably firm tone despite the diversion of money to new trustee stocks and of interest to the Savoy Hotel affair. Business, however, is not particularly large and there is an air of uncertainty about conditions generally which rather belies the firmness of prices.

Tetley Form

We give this week the major part of the accounts presented by Joshua Tetley & Sons Ltd, the Leeds brewers. We commented on the form of the accounts when it was introduced and we still think it provides an excellent example for adoption or adaptation by other companies.

This presentation, of figures starting, in the case of the trading account, from the actual sales total puts more meaning into the chairman's report on the running of the business. He points out that the cost of materials and production is rather higher; savings on malt have been offset by increases in other materials and overheads. In the case of malt, a rise or fall in the cost of barley takes about six months to have its effect so that the high 1951 price is reflected to some extent in this year's malt costs.

This year it has been decided to show bank overdraft interest separately. It has now reached an appreciable figure. A rise in the cost of selling and administration is due partly to the increase in sales and also to a rise in the cost of carriage. There is only a slight increase in administration costs, says the chairman.

Company reporting is so often in vague terms such as 'sales rose by 8 per cent'. It is taking some time, such being the conservatism of the British character, for company directors to realize they can publish a sales total, even in a highly competitive industry, without ruining the business. This company did it three years ago and it is still going ahead. The example should be followed, as also should the Tetley service of quarterly statements.

Taxed Away

The extent to which the Coronation lifted the profits of J. F. Stone Lighting and Radio Ltd from £473,996 to £651,014 for the year to June 30th, 1953, is one of those business intangibles that can never be exactly reckoned. Undoubtedly large numbers of families wanted to see the great event on television but Mr D. G. Nairn, the chairman, thinks the reduction in purchase tax was a great stimulant. During the year also, he points out, the company reaped the harvest from the heavy investment of its funds in hire-purchase transactions which reached its peak in December 1951. He reminds shareholders that conservative accounting for the profits from hire-purchase business involves a strict regard to the safe collection of instalments as they fall due.

Whatever it was that did put profits up, however,

there is no doubt about where they have gone. Income-tax takes £306,700 against £203,500, profits tax is easier at £58,300 against £80,000, but the excess profits levy takes £103,000 against £21,500.

The result is, that while the before-tax profits are up some £177,000, the after-tax figure is less than £17,000 better at £183,226. 'Have ever figures more eloquently reflected the burden of taxation upon industry at the present time', laments the chairman.

'600'

Our curiosity about 'The 600 Group of Companies' has been satisfied by Mr Raymond Ball, chief accountant to George Cohen Sons & Company Ltd. It goes back nearly eighty years to the time when the head office and London wharves of the business were established at 600 Commercial Road, London, E. That was just over forty years after the business was founded.

Not unnaturally, people in the firm (as it then was) began to abbreviate the address in their reference to the new head office. They spoke of 'going to 600'. And as time went on, the habit spread to other concerns with which Cohen & Sons traded.

Then after the First World War, one of the directors had the '600' inserted after the business name in an advertisement and in due course '600' began to appear on notice boards, letter headings, machinery name-plates, etc. One frequently sees it now on the company's motor vehicles as they pass through the streets. '600' has in fact become a 'house-mark'.

The company's registered office is now at Broadway Chambers, Hammersmith, but the '600' sticks. It is an interesting instance of the way in which a particular identity can be created for a business and company.

'What Cannot be Cured'

'I am somewhat surprised', says Mr C. H. Pannell, F.S.A.A., in his report as Borough Treasurer of Hornsey (an inner suburb of London). 'that men who are normally keen on obtaining value for money appear to be somewhat indifferent as to what they get for the rates they pay.' We used to think the same ourselves once but that was quite a time ago. People ought to take an interest in local affairs but human nature being what it is, we are not surprised that they do not. It seems to be very much a case of 'what cannot be cured must be endured'.

Some people grumble, says Mr Pannell. 'They wonder how it is that the "Town Hall" can get rid of so much, but few take the trouble to inquire into the facts.' He thinks that if people did take the trouble they would find that as ratepayers, they get one of the best bargains they can get today.

For the £390 million a year which they pay as ratepayers throughout the country plus some £440 million added to that by the Government from what they pay as taxpayers, Mr Pannell points out that they get education, libraries, museums, art galleries,

sanitation, roads and streets maintained, parks, playing fields, swimming baths, etc.

Here in the 100 pages of accounts to which Mr Pannell puts his name are the *£ s d* of municipal administration so far as the citizens of Hornsey are concerned—even down to the number of bulbs planted in the Borough's open spaces.

Money Market

Treasury Bill applications totalled £373,955,000 on December 4th and at the maintained bid of £99 9s 6d the market obtained 55 per cent of requirements. The average rate was £2 1s 11.72d per cent and this week's offer of £250 million is £50 million below maturities.

JOSHUA TETLEY & SON LIMITED

The Year in Brief

	1953	1952
Sales	£6,553,155	£6,284,857
Net Profit after Taxation	£257,862	£193,630
Net Profit after Taxation (per £1 of Sales) ..	9.44 pence	7.39 pence
Net Profit after Taxation (available per £1 of Ordinary Stock)	53.34 pence	38.86 pence
Dividend (net) paid or proposed per £1 Ordinary Stock	21.45 pence	20.47 pence
Dividends (net) paid or proposed per £1 of Sales	4.33 pence	4.32 pence
Profit invested in business per £1 of Sales ..	5.11 pence	3.07 pence
Number of Employees at end of year ..	1,094	1,099
Number of Licensed Properties owned ..	477	479
Number of Ordinary Stockholders at end of year	999	987
Number of Preference Stockholders at end of year	1,554	1,572

JOSHUA TETLEY & SON LIMITED

Trading Accounts

Statement I

	1953	1952	1951	1950	1949	1948	1947
	£	£	£	£	£	£	£
Sales of Cask and Bottled Ale	6,553,155	6,284,857	5,840,319	5,665,481	5,950,417	5,944,594	4,545,510
Less Excise Duty collected and paid over to Revenue ..	4,127,164	3,994,070	3,850,256	3,783,140	4,116,169	4,179,186	3,099,238
Net Sales of Cask and Bottled Ale	2,425,991	2,290,787	1,990,063	1,882,341	1,834,248	1,765,408	1,446,272
Less Materials and Cost of Production	1,103,624	1,077,295	880,227	863,419	893,561	771,547	663,657
Profit on Sales of Cask and Bottled Ale	1,322,367	1,213,492	1,109,836	1,018,922	940,687	993,861	782,615
Rents of Properties and Profits on Managed Houses ..	135,210	136,356	142,784	119,587	107,860	100,637	97,363
Sundry Income, Commission, Interest, etc.	36,192	34,323	27,591	19,054	15,860	13,472	14,806
Total Income	£1,493,769	£1,384,171	£1,280,211	£1,157,563	£1,064,407	£1,107,970	£892,784
Less Expenses:							
Selling and Administration Expenses	623,610	575,912	516,167	424,133	426,239	377,637	321,742
Property Expenses, Repairs, Depreciation, etc. ..	186,257	206,580	203,854	176,972	182,451	112,078	91,328
Total Expenses	£809,867	£782,492	£720,021	£601,105	£608,690	£489,715	£413,070
Net Trading Profit for Year	683,902	601,679	560,190	556,458	455,717	618,255	479,714
Add Transfer from provision for Deferred Repairs ..	—	—	—	—	2,818	—	—
Transfer Fees	66	64	89	58	62	61	71
Dividends and Debenture Interest—Subsidiary Company..	—	400	400	400	400	757	2,563
	£683,968	£602,143	£560,679	£556,916	£458,997	£619,073	£482,348
Less Charges:							
Interest on 3½ per cent Debenture Stock—Gross ..	19,250	19,250	19,250	19,250	17,922	15,750	15,750
Interest on 4 per cent Debenture Stock—Gross ..	32,000	32,000	21,333	—	—	—	—
Interest on Bank Overdraft	8,692	5,876	422	—	963	—	—
Directors' Fees	4,000	4,000	4,125	4,375	4,000	4,026	4,000
Debenture Stock Trustees' Fees	515	515	410	200	200	200	250
	£64,457	£61,641	£45,450	£23,825	£23,085	£19,976	£20,000
Net Profit before Taxation	619,511	540,502	515,139	533,091	435,912	599,097	462,348
Less Taxation:							
Profits Tax and Income-tax	361,649	346,872	322,215	286,610	244,268	310,632	242,800
Net Profit after Taxation	£257,862	£193,630	£192,924	£246,481	£191,644	£288,465	£219,548
Appropriations of Profits							
Invested in business by transfers to Reserves etc.: ..	£	£	£	£	£	£	£
Pensions Reserve	—	—	—	—	—	90,000	35,000
General Reserve	50,000	50,000	70,000	100,000	50,000	60,107	50,000
Property Improvements Reserve	—	—	—	25,000	25,000	30,000	30,000
Increase in Profits carried forward	89,543	30,427	9,446	4,331	168	7,158	3,348
	£139,543	£80,427	£79,446	£129,331	£75,168	£187,265	£118,348
Dividends (less tax)							
5 per cent Cumulative Preference Stock	24,475	23,625	23,900	24,750	24,076	22,000	22,000
Ordinary Stock	93,844	89,578	89,578	92,400	92,400	79,200	79,200
	£118,319	£113,203	£113,478	£117,150	£116,476	£101,200	£101,200
	£257,862	£193,630	£192,924	£246,481	£191,644	£288,465	£219,548

JOSHUA TETLEY & SON LIMITED
Financial Position at September 30th

Statement 2

	£ 1953	£ 1952	£ 1951	£ 1950	£ 1949	£ 1948	£ 1947
Current Assets.							
Cash	67,179	54,775	175,350	119,335	170,351	178,238	171,712
Government Securities	114,800	144,800	144,800	144,800	144,800	144,800	169,800
Receivable from Customers and others and prepayments ..	550,081	489,883	448,220	406,011	434,202	440,006	399,337
Tax Reserve Certificates	—	—	—	—	170,000	170,000	180,000
	<u>732,060</u>	<u>689,458</u>	<u>768,370</u>	<u>670,146</u>	<u>919,353</u>	<u>933,044</u>	<u>920,849</u>
Stocks of Materials etc.	771,246	782,650	754,685	570,892	522,949	487,896	407,177
	<u>£1,503,306</u>	<u>£1,472,108</u>	<u>£1,523,055</u>	<u>£1,241,038</u>	<u>£1,442,302</u>	<u>£1,420,940</u>	<u>£1,328,026</u>
Deduct							
Current Liabilities							
Bank Overdraft	171,120	87,268	—	—	—	—	—
Depositors	84,817	83,001	82,414	80,816	83,292	78,128	86,614
Payable to Suppliers and Others	184,204	176,012	243,041	208,856	243,257	122,635	146,345
Excise Duty payable	369,057	332,423	302,403	306,597	365,448	395,833	333,978
Current Taxation	312,317	389,025	351,615	254,543	308,084	269,224	266,970
Debenture Interest Accrued (net)	7,333	7,000	7,000	—	—	—	—
Dividends Accrued and Proposed (net)	64,065	61,145	61,145	69,831	69,831	60,055	60,055
	<u>£1,192,904</u>	<u>£1,055,874</u>	<u>£1,047,618</u>	<u>£920,643</u>	<u>£1,069,912</u>	<u>£925,875</u>	<u>£893,962</u>
Net Current Assets	<u>310,402</u>	<u>416,234</u>	<u>475,437</u>	<u>320,395</u>	<u>372,390</u>	<u>495,065</u>	<u>434,064</u>
Fixed Assets							
Brewery, Licensed Properties, Plant and Machinery, etc. — see Statement 3 below	4,935,318	4,739,429	4,625,775	4,000,185	3,844,004	3,049,318	2,908,267
Trade Investments	40,040	3,440	3,440	3,440	3,440	3,440	—
Investment in Subsidiary Company	139,566	142,066	132,066	94,566	96,781	91,989	94,578
	<u>£5,425,326</u>	<u>£5,301,169</u>	<u>£5,236,718</u>	<u>£4,418,586</u>	<u>£4,316,615</u>	<u>£3,639,812</u>	<u>£3,436,909</u>
Deduct							
Provisions, Debentures and Mortgage							
Provision for Future Taxation	285,000	252,000	176,000	170,000	144,000	203,850	158,485
Provision for Pensions	66,534	78,165	89,796	101,427	112,998	124,629	49,139
3½ per cent Mortgage Debenture Stock	550,000	550,000	550,000	550,000	550,000	450,000	450,000
4 per cent Mortgage Debenture Stock, 1976-86	800,000	800,000	800,000	—	—	—	—
Mortgage Loan	—	—	50,000	50,000	50,000	50,000	50,000
	<u>£1,701,534</u>	<u>£1,680,165</u>	<u>£1,665,796</u>	<u>£871,427</u>	<u>£856,998</u>	<u>£828,479</u>	<u>£707,624</u>
Net Assets	<u>£3,723,792</u>	<u>£3,621,004</u>	<u>£3,570,922</u>	<u>£3,547,159</u>	<u>£3,459,617</u>	<u>£2,811,333</u>	<u>£2,729,285</u>
Ownership Equities							
5 per cent Cumulative Preference Stock	900,000	900,000	900,000	900,000	900,000	800,000	800,000
Ordinary Stock	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	900,000	900,000
Profits and Reserves Invested in the Business	1,773,792	1,671,004	1,620,922	1,597,159	1,509,617	1,111,333	1,029,285
	<u>£3,723,792</u>	<u>£3,621,004</u>	<u>£3,570,922</u>	<u>£3,547,159</u>	<u>£3,459,617</u>	<u>£2,811,333</u>	<u>£2,729,285</u>

Brewery, Licensed Properties, Plant and Machinery at September 30th

Statement 3

	£ 1953	£ 1952	£ 1951	£ 1950	£ 1949	£ 1948	£ 1947
Original Cost or Book Value							
Brewery Land and Buildings	604,995	504,685	475,805	469,429	450,343	444,219	441,487
Licensed Properties	4,650,389	4,558,314	4,466,821	3,835,467	3,657,816	2,914,691	2,780,967
Plant and Machinery	982,433	806,486	658,583	521,861	419,261	253,419	150,423
	<u>£6,237,817</u>	<u>£5,869,485</u>	<u>£5,601,209</u>	<u>£4,826,757</u>	<u>£4,527,420</u>	<u>£3,612,329</u>	<u>£3,372,877</u>
Deduct							
Accumulated Depreciation Charged							
Brewery Land and Buildings	270,089	260,034	250,319	240,320	225,741	212,331	201,007
Licensed Properties	632,566	545,488	484,526	423,636	357,168	310,325	263,603
Plant and Machinery	399,844	324,534	240,589	162,616	100,507	40,355	—
	<u>£1,302,499</u>	<u>£1,130,056</u>	<u>£975,434</u>	<u>£826,572</u>	<u>£683,416</u>	<u>£563,011</u>	<u>£464,610</u>
Balance of Original Cost or Book Value							
Brewery Land and Buildings	334,906	244,651	225,486	229,109	224,602	231,888	240,480
Licensed Properties	4,017,823	4,012,826	3,982,295	3,411,831	3,300,648	2,604,366	2,517,364
Plant and Machinery	582,589	481,952	417,994	359,245	318,754	213,064	150,423
	<u>£4,935,318</u>	<u>£4,739,429</u>	<u>£4,625,775</u>	<u>£4,000,185</u>	<u>£3,844,004</u>	<u>£3,049,318</u>	<u>£2,908,267</u>

CORRESPONDENCE

*Letters must be authenticated by the name and address of the writer, not necessarily for publication.
The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.*

Take-over Bids

SIR, — The recent attempts to obtain control of various companies have been the subject of general discussion. One aspect of the matter that deserves attention is that in some cases the so-called fixed assets are entered in the balance sheets at what is erroneously described as historical cost. If such balance sheets were drawn up in present-day sterling the amounts of expired expenditure to be charged to revenue would be greater than the amounts actually charged, resulting in losses or smaller profits appearing. At present members of many companies are being misled as to the results of their trading operations.

If the members realized that their businesses were being conducted uneconomically they might take drastic action either to re-organize their businesses so as to conduct them at a profit or to sell the assets for other purposes.

This latest phenomenon provides one more argument in favour of preparing balance sheets in accordance with basic accounting principles.

Your obedient Servant,

London, WC2.

B. J. DAVIS.

Colonial Assessors of Income Tax

SIR, — A recent advertisement in *The Times* for assessors of income-tax in the East African income-tax department appeared to confine applications to university graduates possessing at least a second-class honours degree. Accepted candidates were to be given a two years' specialized training course in accountancy and income-tax law and practice in Nairobi prior to taking up duty.

Here is surely a need for the accountancy bodies to bring to the notice of the Colonial Secretary the suitability of their members for this type of appointment. Moreover, public money would be saved as a course in accountancy and income-tax law and practice lasting two years should hardly be necessary in the case of qualified accountants.

Yours faithfully,

Wembley, Middlesex.

G. J. LARKIN.

Soft Drinks Factory: Costing System

SIR, — In reply to the inquiry by 'Squash' (October 31st issue), the National Association of Soft Drinks Manufacturers Ltd, of 42 Tottenham Street, W1, this year published a book entitled *Simple Costings in the Soft Drinks Industry*. The price is 21s and it appears to be a comprehensive survey.

Yours faithfully,

GEORGIC.

Bank Interest Certificates

SIR, — In the course of dealing with a fairly extensive personal tax connection, it is constantly brought to my notice, when acting for new clients, that their bankers have failed to supply them with bank interest certificates on which tax allowance can be claimed, and surprise has been expressed that such an abatement of tax was available.

Surely it should be normal banking practice for automatic action to be taken by the banks, to supply their customers at the appropriate time, with the usual form R.62 stating that the certificate is available for tax abatement and should be forwarded either to the accountant or to the Inspector of Taxes concerned. Recent cases have arisen where the relief obtaining has been unclaimed for more than six years.

Yours faithfully,

London, WC2.

GEOFFREY SCHOFIELD.

Birmingham Students' Dinner

SIR, — I have read the report of the Birmingham Students' Society dinner in *The Accountant* (December 5th issue) and whilst this is, as usual, very well done, I am misquoted in relation to the alterations made in the examination syllabus.

I am reported as saying that articulated clerks may now take their Intermediate examination after two and a half instead of three years. This should of course be after two instead of two and a half years.

Yours faithfully,

Manchester, 2.

E. G. TURNER.

[We regret that Mr Turner was misrepresented. — Editor.]

Over-deduction of Tax from Ordinary Dividend

SIR, — The case raised by your correspondent, Mr F. I. Locke (November 21st issue) is governed by Section 493 of the Income Tax Act, 1952, but no date is there stated at which the new rate of tax should be acted upon by the body of persons paying the dividend. Since companies are required by the Companies Act to include in their accounts the proposed ordinary dividend, it follows that the provision will be so included on the basis of the tax rate for the year of account.

In the case mentioned the company were in a position to know that by the date on which they issued the warrants the Budget debate had been concluded and the rate of 9s was 'official'. One would have expected then that the 'spirit' rather than the 'letter' of the law would have been followed by having the warrants changed to the correct rate. By choosing not to do so the secretary avoids in his accounts for the current year the upset of actual receipts and outgo differing from the amounts pro-

vided and at the same time secures for his company a 'profit' representing the 6d per £ difference. It should be noted that a rise in the rate of tax would have favoured the shareholder and not the company.

I sympathize with the writer of the letter, but it seems that he has no redress and that he must simply re-gross his net receipts. Who knows, the lower gross resulting may take him out of the sur-tax net!

Yours faithfully,

Glasgow.

A. M. FORSYTH.

[As we pointed out in our footnote, Section 493 governs the gross amount of the dividend for all tax purposes. What we understand Mr. Locke to be concerned with is the contractual relation between the shareholders and the company which is *not* governed by Section 493 unless the articles or the resolution expressly or impliedly so provide. The company's right under Section 184, as against the shareholder, is to deduct tax at the standard rate for the year in which the dividend 'becomes due'. If tax is deducted at a rate higher than the correct one, then subject to the articles and the resolution, the shareholder would seem to have a right of action against the company. Incidentally, would Mr. Forsyth's advice be the same if the company had deducted tax at 19s in the £? - Editor.]

Losing a Client

SIR, - Despite the length of your comment underneath your correspondent's letter on this matter in the issue of November 28th, I feel that the view expressed therein deserves both sympathy and thought.

There is not much doubt that the small practitioner is regularly losing clients due to sales or amalgamations with larger units. Assume this process were accelerated and that due to a stifling of initiative new ventures were not coming forward at the same speed for the small practitioner so that there was a rapid shrinkage in his work. We may then find the field which produces the bulk of the qualified staff will not be quite as productive and even our larger brethren may then feel the draught in a shortage of new entrants to the profession!

It is no answer to say that it hasn't happened yet. It is also clear that the payment of compensation would not by itself correct the position. I feel your correspondent was voicing the feeling of frustration such as many small practitioners must feel from time to time when losing work to larger units and some measure of compensation might alleviate this feeling.

The time has now arrived when it is impossible for a young qualified man to commence in practice on his own. The small practitioner has little opportunity for expansion and feels the effect of competition from all sources more than the large unit. Ultimately he will either close down or amalgamate in some way so that in the future we may find some fifty firms of practising accountants with a vested interest in the audit and accountancy work of the whole country!

Individual firms cannot advertise, but a limited few have publicity thrust upon them by their regular association with Press advertising through a pros-

pectus. If the auditors certifying the statutory information have not had sufficient publicity then we often find a better known firm reporting as accountants. It is obvious that the issuing house desire a name which has received plenty of publicity. The same tendency is noted in Government and national work.

These are some of the things your correspondent may have had in mind so please don't jump on him because he complains at losing work to his big brothers without any recompense.

Yours faithfully,

ANOTHER WEST RIDING.

[We do not wish to retract anything we said in the footnote to the letter in our issue of November 28th. Our present correspondent is now raising a much wider issue of a long-term nature and his outlook shows a degree of pessimism which we do not think is supported by the present state of the profession. (Only three months ago we published a letter from a correspondent who was urging a six months' 'moratorium' on all tax appeals because back duty cases make the strain on the profession 'nearly intolerable'). If, however, in the future there emerge signs that the profession in its present form is doomed, by force of circumstances outside the profession, the situation will not be one which could have been avoided by compensation payments.]

We agree that for a young qualified man to commence his own full-time practice is a virtually impossible proposition if, as is now normal, he is without substantial private means. But the solution to this problem lies in the realm of politics - not an encouraging thought in a country delicately balanced between antipodal theories about fundamental rights of the individual.

We deprecate the nature of our correspondent's remarks about issuing houses. No doubt they do attach importance to names. But is this all? Our correspondent seems to ignore the fact that prospectus work ranks with the most difficult that a public accountant is ever called upon to undertake. It calls for great experience and special skill and it carries exceptional responsibility. If the profession is not prepared to recognize the need for specialists then indeed our correspondent's pessimism is justified. - Editor.]

Taxation of Doctors: Danckwerts Award

SIR, - I think that I have come across a state of affairs under which one doctor may emerge from his present sense of grievance with a feeling that justice has been done to him.

He was previously in partnership with another doctor, who died during the year 1950-51. The surviving partner continued in sole practice and was assessed from 1950-51 onwards on a 'new business' basis. Although the point may not be material, the first three years were assessed on an actual basis.

Assessments lately made on his Danckwerts Award receipts had the same severe effect as suffered in the cases mentioned in recent correspondence in your columns, but the doctor is now considering the taking on of a partner. It seems to me that if he completes the necessary formalities in this connection

before April 5th, 1954, and has his 1953-54 assessment adjusted to actual, all years from 1950-51 onwards will be the subject of 'actual' assessments and all anomalies should be removed.

It should be emphasized that earnings have kept

to a remarkably even figure from 1951-52 onwards, and an adjustment to actual for 1953-54 will have only a very small adverse effect on the doctor.

Yours truly,
HOPEFUL.

TAXATION CASES

A full report of the cases summarized in this column will be published, with Notes on the Judgments, in the *Annotated Tax Cases*.

Walker's Trustees v. Lord Advocate Haldane's Trustees v. Lord Advocate

In the Court of Session (Inner House)

October 23rd, 1953

(Before the LORD JUSTICE CLERK (LORD THOMSON),
LORD MACKAY, LORD PATRICK and
LORD MACKINTOSH)

Estate duty - Aggregation - Married women's insurance policies - Policies for benefit of estate of last child to die - No delivery of policies - Whether policies exclusively for benefit of children of assured - Whether parent never had an interest in policies - Married Women's Policies of Assurance (Scotland) Act, 1880, Section 2 - Finance Act, 1894, Sections 1 and 4 - Finance Act, 1900, Section 18.

Policies under the Married Women's Policies of Assurance (Scotland) Act, 1880, were taken out by parents of whose estates the appellants were respectively trustees. Each testator had three children. The policies in which the second appellants were interested were five in number; four of them were for the benefit of a nominated child, if he should survive his father; if he did not do so, then for the benefit of the other two children equally, if they survived their father; if only one survived, then wholly for that child. The other policy, and also the four policies of which the first appellants were trustees, went on to provide that, if all the three children predeceased their father, the policies were to be for the benefit of the estate of the child who died last. None of the policies had been, or could have been, delivered to any beneficiary.

It was contended for the trustees that in both cases the policies were expressed on the face of them to be for the benefit of the children, as was required by the Act; that the deceased never had an interest in any of the policies; and that, therefore, the policy money could not be aggregated with the rest of their estates for estate duty purposes. The Inland Revenue contended that the statutory condition was not fulfilled by any of the nine policies. They said that in the case of the four Haldane policies there was no effective provision for the case where all the children predeceased their father; and that in that contingency the father would have been able to dispose of the policies for his own benefit. In the case of the fifth Haldane policy, and as to all the four Walker policies, the Inland Revenue argued that the provision that the policies were to be held for the benefit of the

estate of the child last to die did not satisfy the statutory requirement that the policies should be held for the benefit of the children alone.

Held, (1) that the statutory condition was satisfied by the four Haldane policies, and that, as the deceased never had any interest in them, the policy money could not be aggregated for estate duty purposes; (2) that the fifth Haldane policy, and all the Walker policies, would enure for the benefit of the estate of the last child to die; that in certain events the parent could obtain the right to dispose of the policies; and that, therefore, the statutory condition was not fulfilled, and the policy moneys were aggregable.

Boarland v. Kramat Pulai Limited

In the High Court of Justice (Chancery Division)

October 15th, 1953

(Before Mr Justice DANCKWERTS)

Income-tax - Trade expenses - Cost of circular criticizing political party - Circular sent with accounts and directors' report - Whether an admissible deduction - Income Tax Act, 1918, Schedule D, Cases I and II, Rule 3 (a).

The company carried on tin-mining in Malaya, and the directors were of the opinion that the post-war difficulties in the industry were largely due to the policy of the Labour Government; they considered it to be to the advantage of the company that public opinion should be aroused on this question. A pamphlet was prepared, containing statements by the chairman in criticism of the policy of the Labour Party, and was sent to shareholders with the directors' report and the accounts, and was also sent to other persons. The draft of the document was submitted to the board for their approval.

It was contended on behalf of the company that the sum representing the cost of the document was expenditure wholly and exclusively laid out for the purpose of the company's business, and was accordingly deductible under Rule 3 (a) of Cases I and II of Schedule D, in computing the company's profit for the accounting period under appeal. The General Commissioners allowed the company's appeal.

Held, that the cost of the pamphlet was not expenditure wholly and exclusively for the purpose of the company's trade, for that was only one of the objects of the pamphlet; and that, therefore, the sum in question was not deductible in computing the company's profit.

Commercial Securities Limited v. Commissioners of Inland Revenue

In the High Court of Justice (Chancery Division)

October 13th, 1953

(Before Mr Justice DANCKWERTS)

Sur-tax - Undistributed income of company - Broken period to date of liquidation - Apportionment - Shares in trust for life-tenants and remaindermen - Income apportioned to life-tenants - Whether sum in question is income - Income Tax Act, 1918, Section 14 (3) - Finance Act, 1922, Section 21 - Finance Act, 1927, Section 31 - Finance Act, 1936, Section 20.

On April 29th, 1949, a resolution was duly passed for the voluntary winding-up of the company, and the liquidator was authorized to divide the whole or any part of the assets among the contributors in kind. The company was an investment company within Section 20 (1) of the Finance Act, 1936. A direction was made by the Special Commissioners under Section 21 of the Finance Act, 1922, for the period from April 29th, 1949, to February 1st, 1950, and there was no appeal against the direction. The actual income for this period was £26,404 and the Special Commissioners apportioned it partly to persons who were tenants for life in settlements which included shares in the company.

It was contended that the apportionment to the tenants for life was invalid, in that the part of the £26,404, which had been apportioned to them, was not income, but was capital, and was, therefore, not legally payable by the trustees to the tenants for life. The Special Commissioners confirmed the apportionment.

Held, that the apportionment to the tenants for life was to that extent invalid because the whole of the income that arose after the commencement of the liquidation was not in law income at all, but was merely part of the general assets of the company distributed by the liquidator; and that, therefore, the apportionment of any part of the £26,404 to the tenants for life, was incorrect.

Bramford's Road Transport Ltd v. Evans

In the High Court of Justice (Chancery Division)

October 16th, 1953

(Before Mr Justice DANCKWERTS)

Income-tax - Balancing charge - Acquisition of undertaking by British Transport Commission - Use of assets of undertaking with other assets of Commission - Whether a succession - Whether acquisition was before permanent discontinuance of trade - Income Tax Act, 1842, Section 100, Schedule D, Cases I and II, Rule 4 - Income Tax Act, 1918, Schedule D, Cases I and II, Rules 6, 9, 11 - Income Tax Act, 1945, Sections 17 60, 68 (4) - Transport Act, 1947, Sections 3 (4), 39, 40, 44, 45.

The appellant company carried on, from headquarters in Leicester, the trade of regular service

carriers. It used one type of transport vehicle, and the vehicles were maintained under contract by a motor engineering firm. It carried two trade categories of goods, and offered its services to all customers within the area of its operation. It operated a door-to-door twenty-four-hour service.

On May 9th, 1949, the entire undertaking was acquired compulsorily by the British Transport Commission, and on the same day the appellant company ceased to carry on any trade. The Commission used the company's Leicester depot from May 9th to September 1st, and the company's chief director was appointed a district traffic assistant under the Commission. The company's ten lorries continued their customary services, except that two, which had been engaged in work for a particular concern, were taken from that work and transferred to another district. From the vesting date, May 9th, 1949, vehicles, other than those formerly owned by the company, were supplied with oil from the company's former depot. All the company's employees went over to the British Transport Commission. As from September 1st, 1949, the company's former undertaking was merged with that of another concern, and together formed a unit under the control of the Road Haulage Executive. One of the services formerly maintained by the appellant ceased to be worked by the vehicles formerly owned by the appellant, and another service was modified. The maintenance of the lorries was no longer put out to contract, but was done at engineering establishments of the British Transport Commission. The Commission acquired the use of the name 'Bramford's' from the company, but did not use it. In calculating the sum payable by the British Transport Commission for the appellant's undertaking separate figures were arrived at for each vehicle.

The amount paid by the British Transport Commission for the appellant company's vehicles was £13,104, and the excess of this sum over the expenditure still unallowed as at May 9th, 1949, was £6,330. The latter sum was assessed as a balancing charge, less £197 for certain capital allowances.

It was contended on behalf of the company that there had been no succession of the British Transport Commission to the business formerly carried on by the appellant, and that the appellant's undertaking had become merged in the general undertaking of the British Transport Commission. It was also contended that the permanent discontinuance of the appellant company's trade was coincident with the acquisition of the undertaking by the Transport Commission; and that therefore the conditions in Section 17 (1) of the Income Tax Act, 1945, for the imposition of a balancing charge were not fulfilled. The Special Commissioners decided that there had been a succession within Rule 11 (2) of Cases I and II of Schedule D, and that the assessment had been rightly made.

Held, that the Special Commissioners' decision was correct.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

MEETING OF THE COUNCIL

At a meeting of the Council held on Wednesday, December 2nd, 1953, at the Hall of the Institute, Moorgate Place, London, EC2, there were present:

Mr J. Blakey, President, in the chair; Mr D. V. House, Vice-president; Messrs H. Garton Ash, O.B.E., M.C., W. L. Barrows, Sir Harold Barton, Mr T. A. Hamilton Baynes, Sir Bernhard Binder, Messrs C. W. Boyce, C.B.E., W. G. Campbell, W. S. Carrington, D. A. Clarke, J. Clayton, S. W. Cornwell, E. C. Corton, A. S. H. Dicker, M.B.E., W. W. Fea, G. R. Freeman, Sir Harold Gillett, M.C., Messrs P. F. Granger, W. H. Lawson, C.B.E., R. B. Leech, M.B.E., T.D., R. McNeil, S. J. Pears, C. U. Peat, M.C., P. M. Rees, M.C., P. V. Roberts, G. F. Saunders, Gilbert D. Shepherd, M.B.E., K. G. Shuttleworth, C. M. Strachan, O.B.E., E. D. Taylor, G. L. C. Touche, E. Gordon Turner, M.C., A. D. Walker, Sir Nicholas Waterhouse, K.B.E., Messrs M. Wheatley Jones, E. F. G. Whinney, R. P. Winter, M.C., T.D., with the Secretary and an Assistant Secretary.

Welcome to New Member of the Council

The President welcomed Mr P. V. Roberts, of Bristol, who was elected to the Council at its meeting on November 4th, and who was attending for the first time. Mr Roberts briefly replied.

Reduction in Period of Service under Articles

One application under bye-law 61 for a reduction in the period of service under articles was acceded to.

Exemption from the Intermediate Examination

One application under bye-law 85 (b) for exemption from the Intermediate examination was acceded to.

Final Examination

One application under bye-law 63 (e) for permission to sit an earlier Final examination was acceded to.

Articled Clerks in Industrial Organizations

One application under bye-law 58 (c) from an articled clerk to serve a part of his articles in an industrial organization was acceded to.

Articled Clerk engaging in Other Business

The Council acceded to one application under bye-law 57 from an articled clerk to engage during his service under articles in other business for the sole purpose and to the limited extent specified in the application.

Appointment to Committees

Mr P. V. Roberts was appointed to serve on the Applications, and Finance Committees for the ensuing year.

Appointment of Secretary to the Taxation and Research Committee

The Council authorized the publication of an advertisement inviting applications from members of the

Institute, preferably between the ages of 30 and 40, for appointment as Secretary to the Taxation and Research Committee.

Autumnal Meeting, 1953

Copies of a booklet containing the opening address of the President, the programme and the papers presented by Mr K. A. E. Moore, F.C.A., on 'The accountant as financial adviser', and by Mr E. N. Macdonald, D.F.C., F.C.A., on 'Excess profits levy', may be obtained by members on application to the Secretary on payment of the sum of 2s 6d per copy. Copies are available to non-members on payment of the sum of 5s per copy.

Institut der Wirtschaftsprüfer

The President reported to the Council on his visit, together with Mrs Blakey and Mr and Mrs MacIver, to Frankfurt, November 18th-21st, 1953, on the invitation of the Institut der Wirtschaftsprüfer.

Reversion to Associate

The Secretary reported that Mr William Ashburner Stables, F.C.A., had reverted to associateship under clause 7 of the supplemental charter.

Registration of Articles

The Secretary reported that 177 articles of clerkship were registered during the month of November, 1953, as compared with 163 in the previous November.

Resignations

The Secretary reported the resignations of:

- Mr Ralph Henry Barber, A.C.A., Goring-by-Sea.
- " Douglas Wilson Berry, A.C.A., Woodford Green.
- " William Richard Lyon Bowley, A.C.A., London.
- " Arthur Bennett Collier, A.C.A., Deganwy.
- " Theodore Fisher, A.C.A., Manchester.
- " Edmund Niel Furze, B.A., A.C.A., London.
- " George Percy Gibbs, A.C.A., Birmingham.
- " David Bradwyn Jones, A.C.A., Teignmouth.
- " Robert Kingsley Kay, A.C.A., Deganwy.
- " Bramwell William Henry Nurse, A.C.A., Norwich.
- " Herbert Charles Rolfe, A.C.A., High Wycombe.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

- Mr Herbert Armistead, F.C.A., Leeds.
- " Leonard Charles Beecroft, F.C.A., London.
- " Frank Walter Bristow, F.C.A., London.
- " Maitland Chater, F.C.A., Hove.
- " George Frederick Cuff, A.C.A., New York.
- " Harry Thomas Louch, F.C.A., London.
- " Thomas Clifford Myrtle, A.C.A., Harrogate.
- " Elliot Tennent Nicholson, F.C.A., Hoylake.
- " George Reeves Slater, F.C.A., Bournemouth.
- " Gwilym Huw Williams, F.C.A., Plymouth.

APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on November 4th, 1953.

The Appeal Committee heard an appeal against the finding and decision of the Disciplinary Committee of the Council upon a formal complaint preferred by the Investigation Committee to the Disciplinary Committee that Arthur Sweet, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Clause 21, sub-clause (3) of the supplemental Royal Charter in that (a) despite repeated requests made to him between July 1st, 1952, and June 30th, 1953, by the liquidator of a limited company he failed to hand over to the liquidator the minute book and share register of the company and certain accounts relating thereto; (b) he failed to reply to two letters addressed

to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. Having considered the record of evidence given before, and documents produced to, the Disciplinary Committee and having heard Counsel instructed by Mr Sweet and further evidence on his behalf, the Appeal Committee affirmed the finding of the Disciplinary Committee that the formal complaint against Arthur Sweet, F.C.A., had been proved and the Appeal Committee, varying the decision of the Disciplinary Committee, ordered that Arthur Sweet, F.C.A., of 22 Half Moon Street, London, W1, be suspended from membership of the Institute for a period of one year.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

ANNUAL DINNER

The annual dinner of the Liverpool Society of Chartered Accountants was held at *The Adelphi Hotel*, Liverpool, on Friday, December 4th, with Mr W. P. Scowcroft, A.C.A., President of the Society, in the chair. Some 200 members and guests attended and were received by Mr Scowcroft, Mr James Blakey, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Alderman W. J. Tristram, J.P., Lord Mayor of Liverpool.

Among the guests were the Viscount Leverhulme, J.P., T.D., Lord Lieutenant of Cheshire; Sir Harry Pilkington, President, the Federation of British Industries; Mr P. Butler, F.C.A., President, The Institute of Chartered Accountants in Ireland; Alderman W. E. R. Short, F.C.A., Mayor of Birkenhead; and

Messrs John Ainsworth, M.B.E., F.S.A.A., F.I.M.T.A. (*City Treasurer*); P. H. Betton, F.C.I.I. (*President, Insurance Inst. of Liverpool*); B. B. Bolton, F.R.I.C.S. (*Chairman, Royal Institution of Chartered Surveyors: Lancashire, Cheshire and Isle of Man Branch*); Lieut.-Col. P. G. R. Burford, T.D., M.A. (*Secretary, Incorporated Chamber of Commerce of Liverpool*); Mr H. Clarke, F.C.I.S. (*Chairman, Liverpool and District Branch, Chartered Institute of Secretaries*).

Messrs Cecil L. Davies, F.C.A. (*President, Leeds, Bradford and District Society of Chartered Accountants*); W. G. Densem, F.C.A. (*Chairman, London and District Society of Chartered Accountants*); R. B. Dixon, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*); Mr A. K. Ferguson, A.C.A. (*Official Receiver in Bankruptcy*); Sir Rex Hodges, J.P. (*General Manager and Secretary, Mersey Docks and Harbour Board*).

Messrs J. L. Hughes, F.S.A.A. (*President, Incorporated Accountants' District Society of Liverpool*); G. F. Ibbotson (*President, Liverpool and District Bankers' Institute*); T. E. A. Killip, F.A.C.C.A., F.C.I.S. (*President, Liverpool and District Society of Certified and Corporate Accountants*); A. S. MacIver, M.C., B.A. (*Secretary of the Institute*); G. P. Morgan-Jones, F.C.A. (*President, South-Eastern Society of Chartered Accountants*).

Messrs Stanley Morris, F.C.A. (*President, Liverpool Chartered Accountants' Students' Association*); D. R. Newman, A.C.A. (*Chairman, South Lancashire Branch, Liverpool Society of Chartered Accountants*).

Messrs F. Nuttall, F.C.W.A. (*President, Liverpool and District Branch, Institute of Cost and Works Accountants*); F. W. Pople, F.S.A.A. (*Hon. Secretary, Incorporated Accountants' District Society of Liverpool*); H. R. Pruddah, LL.B. (*President, Incorporated Law Society of Liverpool*); B. A. Schanschieff, F.C.A. (*President, Leicestershire and Northamptonshire Society of Chartered Accountants*).

Mr H. W. R. Selmes (*H.M. Principal Inspector of Taxes*); Professor Wilfred Smith, M.A. (*Dean of the Faculty of Arts, Liverpool University*); Mr E. J. Stockwell, F.A.I. (*Chairman, Chartered Auctioneers and Estate Agents' Institute: Liverpool and District and North Wales Branch*).

Messrs R. M. Synge, M.C. (*Chairman, Liverpool Stock Exchange*); A. K. Tunnock, A.C.A. (*Chairman, Chester and North Wales Branch, Liverpool Society of Chartered Accountants*); E. G. Turner, M.C., F.C.A. (*President, Manchester Society of Chartered Accountants*).

Lord Leverhulme, proposing the toast "The City and Trade of Liverpool", dealt with the close associations of the accountancy profession with the Merseyside industries. He spoke of the city - and district - being as proud of local patriotism as of national patriotism, and said:

'Let us hope that just as local patriotism can now exist without entailing civil war, one day, if the human race learns sense in time, national patriotism will be able to exist without entailing world wars.'

The Lord Mayor responded.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir Harry Pilkington said people should not wait for the Government to make taxation easy for industry. Rather industry should give the lead, put its house in order and have the courage of its convictions by accepting the need to provide the full cost of maintaining

industry as a going concern, out of its own expenses if necessary.

Responding, Mr Blakey referred to his visits to the various district societies and said he was stimulated by the amount of voluntary work which was undertaken by the members, not only for the society itself, but for the student societies and in other directions.

'I would like to mention', he said, 'that the Council feels some concern at the general falling off in attendances at meetings and urges principals to encourage their articulated clerks to participate in the student societies' activities in order to secure the benefits of the wider education offered.'

Mr Blakey then referred to the question of management accounting, business methods and organization.

'In my opinion' he said, 'practically all this work is eminently suitable for and comes within the ambit of our professional qualifications. Many firms of chartered accountants have departments which specialize in this activity, but naturally it cannot be advertised and hence we are at a disadvantage as against the management consultant who uses methods which would not be considered ethical by our standards.'

'Without in the least underrating the value of manage-

ment accounting, there is no magic in it and like much other specialized work, it is common sense and a projection of the fundamental training which every chartered accountant receives, and can be carried out by the accountant in his own practice or in his capacity as a full-time employee in a commercial concern. It implies making use of the current records of a business, both financial and technical, rather than a study of the events of the past with which our member as an auditor is normally concerned.

'At the same time, may I suggest that too many directors of commercial and industrial concerns are prone to accept the manner in which business facts and figures are presented in other countries to which they have made visits when all the time the same facts can and probably have been made available to them by accountants in their employ - in other words, the old adage applies "A prophet is not without honour save in his own country".'

Mr Blakey paid a tribute to the Liverpool members 'as a Lancastrian', and to the new branches - the Chester and North Wales, and South Lancashire - which, he hoped, would continue their good work.

The toast of 'Our Guests' was proposed by Mr E. T. Denton, B.A., F.C.A., Vice-President of the Society, and Mr Butler responded.

THE NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY ANNUAL DINNER

A change in the period of study for the Intermediate examination was referred to by Mr G. F. Saunders, F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, when he replied to the toast to the Institute at the annual dinner of the Nottingham Chartered Accountant Students' Society, held at *The Victoria Station Hotel*, Nottingham, on Tuesday, December 1st.

The President of the Society, Mr J. B. Burnie, F.C.A., presided.

Among those present were the High Sheriff of Nottinghamshire, Alderman Sir Cecil Armitage, C.B.E., D.L., J.P.; the Lord Mayor of Nottingham, Councillor C. Coffey, J.P.; the Sheriff of Nottingham, Councillor W. J. Cox; the Under-Sheriff of Nottingham, Mr G. A. Wharton; and

Messrs J. G. S. Abbott (*H.M. Inspector of Taxes*); G. F. Arnold, (*Leicester and Northampton Chartered Accountant Students' Society*); A. B. Aspinall, (*Secretary, Birmingham Chartered Accountant Students' Society*); E. P. Broome, F.C.A. (*Vice-President, Nottingham Chartered Accountant Students' Society*); T. Carr; J. J. D. Coates (*Secretary, Sheffield and District Chartered Accountants' Students' Society*); D. S. Corder (*Nottingham Law Students' Society*); P. R. T. Cotten (*Secretary, Leeds and District Chartered Accountant Students' Society*).

Messrs A. Crosby (*Nottingham Junior Chartered Surveyors*); Derek du Pré (*Editor 'The Accountant'*); E. W. Edwards (*Liverpool Chartered Accountant Students' Association*); P. F. Granger, F.C.A. (*Member of Council of The Institute*); R. O. F. Hickman; J. S. F. Hill, F.C.A. (*President, Nottingham Society of Chartered Accountants*); T. Russell Moor, A.C.A.; F. S. Naylor.

Messrs J. H. Pascoe (*Vice-chairman, Chartered Accountant Students' Society of London*); D. W. Pursglove (*Bradford and District Chartered Accountants' Students' Society*); A. C. G.

Rothera; D. Richardson, A.I.B.; P. W. Skinner, F.S.A.A., (*President, Nottingham Society of Incorporated Accountants*); B. W. Sutherland, A.C.A.; L. G. Trotter, (*Northern Chartered Accountant Students' Society*).

Mr Saunders said:

'The Council is deeply concerned that the standard of our membership should be maintained. You will see, if you read *The Accountant* - as I hope you do - that the Council intend at the next annual meeting to propose an amendment to the bye-laws so that those of you who are still interested in examinations will be able to sit for the Intermediate examination six months earlier than hitherto.

'You will see it gives you another six months to study for your Finals. However, this resolution will not be passed until next May and will therefore be effective from May 1955.'

Mr Saunders warned:

'Examinations are not an end in themselves but a means to an end. You should try to do all you can to broaden your education, and give yourself a wide experience to enable you to take your place in the profession in the years to come.'

The students were coming into a heritage which had been built up over seventy years. 'I hope you will put something back into it so as to help those students who follow behind you.'

Great changes had taken place during the past fifty years and more changes would occur during the next half century.

'What those changes will be neither you nor I can tell, but if you get your principles right and your knowledge is sound, you will be equipped for whatever the future may hold. Don't let your profession control your life. Preserve and cultivate a proper sense of proportion. Learn to think for yourself and accept responsibility. These are virtues that are liable to be overlooked in this welfare state.'

The civic toast was proposed by Mr Broome and the Lord Mayor replied. Sir Cecil Armitage proposed the toast to 'The Institute of Chartered Accountants in England and Wales' and said:

'Your profession is one for which I have the greatest admiration. It is becoming more and more valuable every day in commerce and industry. You have an enormous part to play in the industry of the country, and I realize that your advice and your help, which in my experience has

been so freely and happily given, is of immense benefit to industrialists.'

Mr Wharton toasted the Nottingham students, and in his reply Mr Burnie said he thought it was due to the visitors to know that the function had been arranged by the students themselves. (Applause.)

The guests were toasted by Mr R. C. Smith, the Nottingham students' honorary treasurer; Mr Derek du Pré and Mr Pascoe replied.

DINNER IN EXETER

Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants

The Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants held its fifth annual dinner at *The Imperial Hotel*, Exeter, on Friday, December 4th. Mr S. R. Perratt, F.C.A., Chairman of the Branch, presided. More than 100 members and guests were present and were received by Mr Perratt and Mr D. V. House, F.C.A., Vice-President of The Institute of Chartered Accountants in England and Wales.

Among the guests were the Mayor of Exeter, Councillor A. J. Bovey, J.P.; Sir Godwin Michelmores, K.B.E., C.B., LL.B., President, Devon and Exeter Incorporated Law Society; Mr G. U. Farrant, C.B.E., J.P., an Alderman of the Somerset County Council; Mr C. Croxton-Smith, M.A., LL.B., F.C.A., President, Bristol and West of England Society of Chartered Accountants, and:

Messrs J. A. Bruce-Hoare (*President, Exeter and District Centre, Institute of Bankers*); R. A. Chermade, A.C.A. (*Hon. Secretary, Bristol and West of England Society of Chartered Accountants*); S. W. Cornwell, F.C.A. (*Member of the Council of the Institute*); Alderman W. G. Daw (*Sheriff of Exeter*); Mr W. V. Eggleton, F.C.A. (*Representative, Gloucester Group of Chartered Accountants*).

Messrs S. G. T. Holmes, F.S.A.A. (*President, Incorporated Accountants' District Society of Devon and Cornwall*); A. D. Lake (*H.M. Inspector of Taxes, Exeter 1st District*); C. H. S. Loveday, A.C.A. (*an Assistant Secretary of the Institute*); E. J. Smart (*H.M. Principal Inspector of Taxes, S.W. Area*); S. S. H. Stroud (*President, Western Counties Branch, Chartered Auctioneers' and Estate Agents' Institute*); G. E. Tomlinson (*Hon. Secretary, Western Counties Branch, Chartered Auctioneers' and Estate Agents' Institute*); A. E. Webb (*Assistant Editor, 'The Accountant'*).

'The City and County of the City of Exeter' was proposed by Mr Farrant; the Mayor replied.

In proposing 'The Institute of Chartered Accountants in England and Wales', Sir Godwin Michelmores traced the development of the accountancy profession, and spoke of its close relationship with the law.

'I am here tonight', he said, 'as the very inadequate representative of the legal profession, a profession which in most of its points, coincides with your great profession - the accountancy profession . . .

'Today we stand together as two great professions responsible to an extraordinary degree for the running of the country. This is perhaps a rather wide boast, but I believe you would accept it, that with the law, the profession of accountancy has assumed - willingly or not I cannot say - the main responsibility for the control and organization of industry. There is no business in this country that can function without its auditor, without its professional financial adviser, and I would think, in most cases, such advisers are members of your Institute.'

Responding, Mr House said the enormous growth in the membership of the Institute in recent years, plus the growth in the volume of work, had required a substantial increase in staff at the Hall in Moorgate Place. Those who were closely connected with the Institute, knew how heavily overworked they were.

Taking 1938 as the pre-war standard, membership had risen from 12,500 then to 17,500 now, and the number of articles registered, from 696 to 1,400. Examination candidates had risen from 2,604 to 4,250. Council and committee meetings in 1938 totalled 81, but already this year there had been more than 200, while the Taxation and Research Committee had met 110 times.

'I do not think these facts are generally realized,' said Mr House, 'and I would like to take this opportunity of paying a public tribute to the whole of the Institute staff, for the work which they put in for the benefit of members.'

Referring to what he called 'the winter campaign of the President' in the course of attending at least a dozen district dinners, he pointed out that the President's speeches were often used as a vehicle for passing on information, and were fully reported in *The Accountant*. He went on to cite some of the topics which the President had recently dealt with, which included the proper selection of article clerks; 'piracy' by unqualified accountants; the duty of communicating on a change of auditors or accountants; the work of the Investigation Committee; the work of the district society advisory panels; management, accounting and business methods.

Mr House concluded:

'On behalf of the Council, I do want to say how important is the work of the branches and the districts in the progress of the Institute, particularly having regard to the increase of members, and to say how much their activities are appreciated.'

Mr Croxton-Smith said that it gave him the greatest pleasure to propose 'The Exeter and District Branch of the Bristol and West of England Society of Chartered Accountants', because he had some part in helping to form the branch in 1946, and had been closely associated with it ever since. He paid a tribute to Mr J. G. Simpkins, A.C.A., who had been hon. secretary of the branch since its foundation, and to the successive chairmen who had held office.

Responding, Mr Perratt added his thanks to Mr Simpkins, to whom was due the chief credit for the fact that over 100 guests were present at the dinner, a record for the branch.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

REVISION OF EXAMINATION SYLLABUS

The Council of The Institute of Chartered Accountants in Ireland has had the revision of the examination syllabus under consideration for some time. Agreement has now been reached on changes relating to the Intermediate and Final examinations and the new syllabus will come into operation as from and including the May 1955 examinations.

Full information is being circulated to all articulated pupils and practising members of the Institute.

Revision of the syllabus for the Preliminary examination is still under consideration, and an announcement will be made in due course.

In announcing the new syllabus, which we publish below, the Council draws particular attention to the following facts:

Intermediate Examination

In the Intermediate examination:

- (a) A knowledge of cost accounting will be required: a new paper, 'Taxation and cost accounting', is therefore included (at present income-tax questions appear in the accounts papers).
- (b) A separate paper on 'Company law and secretarial practice' is being introduced.
- (c) The subject 'Theory of logarithms, interest and annuities-certain' is being discontinued.
- (d) As a result, the number of subjects will be six instead of five.

Final Examination

In the Final examination:

- (a) A separate paper will be devoted to 'Cost accounting'.
- (b) A separate paper on the 'Law relating to companies (excluding liquidations), partnerships, executorship, and arbitrations and awards' is being introduced. A knowledge of company, partnership and executorship law will, of course, continue to be required for the solution of accounts questions in the advanced accounting papers; as will also a knowledge of case law in the auditing paper.
- (c) As a result of these changes, the number of subjects will be increased from seven to eight and the time occupied by the examination from 18 hours to 23½ hours.

REVISED SYLLABUS FOR THE INTERMEDIATE EXAMINATION

**Applicable from and including the May 1955
examination (and until otherwise prescribed
by the Council)**

Subject	Time allowance: Hours
1. Book-keeping and Accounts (including Limited Companies)	3
2. Book-keeping and Accounts (including Partnership and Executorship)	3
These two papers will comprise: Principal and subsidiary books of account and statutory books; elements of company, partnership and executorship law; methods of keeping and presenting accounts; the terms used in accounts; manufacturing, trading and profit and loss accounts and balance sheets, including departmental and branch accounts; the preparation of executorship accounts, including simple distributions, legacies, etc.	

Subject	Time allowance: Hours
3. Auditing	3
4. Taxation and Cost Accounting	3
The laws and principles of income-tax, surtax, corporation profits tax and profits tax and their application; the preparation of computations and claims. The objects, principles and application of costing methods.	
5. Company Law and Secretarial Practice	2½
The Companies Acts, including a knowledge of Table 'A' with the exception of provisions relating to the winding-up of companies; transfer work and dividends; the convening, constitution and conduct of meetings; agendas and minutes; adjournments; voting and proxies.	
6. The Law of Contract and General Commercial Knowledge	2½
Office and counting house routine; the purchase, sale, storage and conveyance of goods (home, import and export); mercantile, commercial and insurance terms; cheques and bills of exchange; stock exchange terms and the practice in the purchase and sale of securities.	

REVISED SYLLABUS FOR THE FINAL EXAMINATION

**Applicable from and including the May 1955
examinations (and until otherwise prescribed
by the Council)**

Subject	Time allowance: Hours
1. Advanced Accounting including Company Accounts	3
2. Advanced Accounting including Partnership and Executorship Accounts	3
These two papers will comprise: Systems of accounting (including mechanized) as applied to commercial enterprises and public utility undertakings; amalgamations and reconstructions; flotation of companies; holding companies and consolidated accounts; the accounts of executors and trustees of estates of deceased persons.	
3. Auditing and the General Duties of Professional Accountants	3
Including investigations, valuations of goodwill and stocks and shares, formation of partnerships and companies.	
4. Taxation	3
The laws and principles of income-tax, surtax, corporation profits tax and profits tax and their application; the preparation of computations and claims.	
5. The Laws and Accounts relating to Liquidators, Receivers and Trustees; Law and Practice of Bankruptcy	3
The powers, duties and accounts of liquidators under the Companies Acts and of receivers and trustees; the laws of bankruptcy and the preparation of bankruptcy statements of affairs and schedules.	
6. Cost Accounting	3
The objects, principles and application of costing methods.	

Subject	Time allowance: Hours
7. Law relating to Companies (excluding Liquidations), Partnerships, Executorship and Arbitrations and Awards	3
8. Commercial Law and General Commercial Knowledge	2½
General knowledge in regard to commerce and finance including banking, foreign exchanges, insurance practice, currency and credit, etc.	23½

A choice of either 8 out of 10, or 10 out of 12, questions will be given on this paper.

Notes.

- (1) In subjects in which the law and practice in Northern Ireland and the Republic of Ireland differ, candidates may answer questions according to the law and practice of either country, but must state under which law and practice (i.e. Northern Ireland or the Republic) they have answered the questions. Special consideration will be given to candidates who display a knowledge of both. *In Part 4 of the Final examination (taxation) one or two questions requiring a knowledge of the taxation laws of both countries may be set.*
- (2) Candidates are not required to memorize rates of estate duty and sur-tax. The rates will be given where required for the solution of questions.

MEETINGS OF THE COUNCIL

The quarterly and a special meeting of the Council of the Institute of Chartered Accountants in Ireland was held in Belfast on November 27th, 1953. Mr Patrick Butler, F.C.A., *President*, was in the chair and there were also present:

Messrs F. Cleland, *Vice-President*, H. E. A. Addy, A. E. Dawson, W. H. Fitzsimons, H. Trevor Montgomery, P. J. Purtil, J. Walker and D. McC. Watson, with the *Secretary*, Mr Wm. E. Crawford, and the *Joint Secretary*, Mr H. Stevenson, in attendance. An apology for absence was received from Mr G. F. Klingner.

Fellowship

Mr Andrew Maze, Associate in Practice (Belfast) applied for and was admitted to Fellowship.

Associates in Practice

The following members were admitted to practice:

Messrs Norman Alexander Agnew (Belfast), Francis Joseph Barrett (Caracas, Venezuela), Michael Joseph Ryan (Dublin), Desmond Fintan Wallis (Limerick).

Membership

Mr Alexander Noel Williams (Belfast), who passed the Final examination in May 1953, applied for and was admitted to membership as an Associate in Practice.

Death

The death of Mr Michael F. A. Twomey, A.C.A. (Cork), in October 1953, was reported and noted with regret.

Exclusions from Membership

The following were excluded from membership for non-payment of their fees for the year 1953, under bye-law 107 (6):

Messrs Charles Edward Buckley, F.C.A., 66 Wellington Park, Belfast; Edmond John McManus, A.C.A., 70 Bryansburn Drive, Bangor, Co. Down; Frank Smith, A.C.A., 22 Southernhay East, Exeter, Devon.

Approved (Public) Auditors' Fees

It was noted that the Minister of Commerce, Northern Ireland, had acceded to representations for a revised scale of maximum fees allowed to be charged by approved auditors appointed under the Industrial and Provident Societies Acts and the Friendly Societies Acts, etc., and that the increased scale will operate from January 1st, 1954; but that similar representations to the Minister for Industry and Commerce for an increase in the scale of fees for public auditors in the Republic (which has not been varied since it was introduced twenty years ago) had not been successful.

Examinations Entitling to Exemption from the Preliminary Examination

The requirements in the following examinations, for exemption from the Preliminary examination of the Institute, were under review and were altered thus:

The Leaving Certificate Examination of the Department of Education of the Republic of Ireland (Secondary Education Branch)

As from and including the examination in 1954 – the certificate, provided it includes honours in a mathematical subject, English and one other subject.

The Grammar School Senior Certificate Examination of the Ministry of Education for Northern Ireland

As from and including the examination in 1952 – the certificate, provided it includes, at one and the same examination, the credit standard at ordinary level, or a pass at advanced level, as the case may be, in a mathematical subject, 'English language' and one other subject.

The General Certificate of Education of the recognized examining bodies in England and Wales

As from and including the examination in 1951 – provided it includes, at one and the same examination, a pass at least at ordinary level in not less than five subjects, including a mathematical subject (other than 'arithmetic') and 'English language' (or, at advanced level, 'English' or 'English literature').

List of Members

It was noted that the list of members of the Institute corrected up to August 31st, 1953, was in the hands of the printers and that it was hoped to be able to issue it before the end of December 1953.

Exemption Certificates Issued

It was reported that the number of certificates of exemption from the Preliminary examination issued this year to date (November 18th, 1953) was 65, compared with 50 to the same date in the previous year.

Articles of Clerkship Registered

It was noted that the number of articles of clerkship registered with the Institute this year to date (November 18th, 1953) was 61, compared with 49 to the corresponding date last year.

Membership Subscriptions Waived

The subscriptions of two members for the year 1953 were waived under bye-law 47A on account of illness.

Next Quarterly Meeting

It was decided that the next quarterly meeting of the Council should be held on February 25th, 1954, in Dublin.

REPORTS OF PUBLIC COMPANIES

THE ACCOUNTANT ANNUAL AWARD

As already announced, *The Accountant* proposes to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange in the United Kingdom, in relation to the form and contents of the reports and accounts as issued to their members.

The factors which will be considered by the panel of judges will include the adequacy of the information given and its presentation.

Companies are requested to send, for consideration, copies of their reports and accounts (with any chairman's statement circulated therewith) to:

The Secretary, *The Accountant* Annual Award,
4 Drapers' Gardens,
Throgmorton Avenue,
London, EC2.

These should be sent at the time of publication but for the 1954 award it is requested that they be sent so as to reach the secretary not later than January 30th, 1954.

The award in 1954 will be made in respect of the reports and accounts laid before the company in general meeting within the year ending December 31st, 1953, and being for the financial year or other financial period ended last preceding that date.

The panel of judges is composed of:

Mr Montagu Gedge, Q.C., *Chairman*; Mr W. L. Barrows, J.P., F.C.A.; Sir Harold M. Barton, F.C.A.; Lord Latham, J.P., F.A.C.C.A.; Mr Thomas Lister, M.A., C.A.; Mr Bertram Nelson, J.P., F.S.A.A.; Mr G. Tyser; Mr Derek du Pré, Editor, *The Accountant*.

NOTES AND NOTICES

Personal

MESSRS D. & J. WARNER & Co, Chartered Accountants, of 80 Coleman Street, London, EC2, announce that Mr J. WARNER, A.C.A., has resigned from the firm and that Mr DAVID WARNER, F.C.A., the remaining partner, has taken into partnership Mr ARTHUR BRAFF, B.COM., B.SC.(ECON.), A.C.A. The practice will be carried on under the style of WARNER, BRAFF & Co. They also announce that they have removed their offices to City Gate House, Finsbury Square, EC2. The telephone numbers, Monarch 0525/6, remain unchanged.

MESSRS SLATER, DOMINY & SWANN, Chartered Accountants, of Sussex House, Hobson Street, Cambridge, announce that they have admitted into partnership Mr J. E. SQUIRES, A.C.A., A.S.A.A., Mr G. H. B. ROWLINSON, A.C.A., and Mr M. J. F. SHAW, A.C.A.

MESSRS PILLEY & FLORSHAM, Certified Accountants, announce that as from December 2nd, 1953, they have changed their address from 5 Fleet Street, Coventry, to 210-211 Broadgate House, Coventry.

MESSRS CHAPLIN, HALL & Co, Incorporated Accountants, of National Provincial Bank Chambers, Hertford Street, Coventry, announce that as from December 1st, 1953, they have taken into partnership Mr D. H. SALMON, A.S.A.A., who has been associated with them for a number of years. The style of the firm remains unchanged. They also announce that as from December 14th, 1953, their address will be changed to 403 The Bridge, Broadgate House, Coventry. Telephone: Coventry 40190.

Professional Notes

Mr Benjamin Selby, A.C.A., accountant and secretary of Sir James Hill & Sons Ltd, of Bradford, has been appointed a director of the company.

Mr A. Norman Townsley, A.C.A., joint managing director of Dawber, Townsley & Co Ltd, Hull, has been appointed honorary treasurer of the National Federation of Roofing Contractors.

In Parliament

BANK INTEREST: DECLARATION

Mr HOUGHTON asked the Chancellor of the Exchequer how many notifications of bank interest exceeding £15 have been received by the Inland Revenue Department under the provisions of Section 27 of the Finance Act, 1951; in what proportion of cases have the taxpayers concerned failed to return the amount, or the full amount; and what amount of unassessed tax and penalties has already been recovered.

Mr JOHN BOYD-CARPENTER: Up to March 31st, 1953, about 1,200,000 notifications had been received. In about one-quarter of the cases failure to return the amount or the full amount has been discovered or is suspected. The amount of unassessed tax and penalties so far recovered is about £7 million.

Hansard, Nov. 26th, 1953. Oral Answers. Col. 497.

TAX COLLECTION: COST

Mr CHETWYND asked the Chancellor of the Exchequer the cost of collection, and what proportion this cost bore to the total yield of sur-tax, income-tax, as a whole, and income-tax collected through P.A.Y.E., respectively, in the last financial year for which particulars are available.

Mr BOYD-CARPENTER: The cost of collection of Inland Revenue duties generally in the year ended March 31st, 1952, the latest for which figures are available, was 1.07 per cent. It is not possible to distinguish the cost of collecting individual taxes.

Hansard, Nov. 26th, 1953. Written Answers. Col. 96.

FOOTBALL: TAX

Wing Commander BULLUS asked the Chancellor of the Exchequer the amount of revenue derived by his department from the pool betting duty on football pools in 1951 and 1952.

Mr BOYD-CARPENTER: The receipts of pool betting duty in respect of football and similar pools were £17,218,392 in 1951 and £19,772,642 in 1952.

Hansard, Nov. 26th, 1953. Written Answers. Col. 98.

INDIAN ESTATE DUTY ACT

Mr ARBUTHNOT asked the Chancellor of the Exchequer (1) what action is being taken to arrange, on a basis of reciprocity, for relief in respect of the Indian Estate Duty Act which subjects to Indian estate duty shareholdings in companies registered in the United Kingdom, when the majority of the income of the company arises in India:

(2) what action is being taken to arrange for relief, on a basis of reciprocity, from the provisions of the Indian Estate Duty Act which places upon companies, rather than upon the deceased estates concerned, the responsibility for paying estate duties which arise under the Act.

Mr BOYD-CARPENTER: Her Majesty's Government, and, I understand, the Indian Government both appreciate the desirability of an agreement for the avoidance of double death duties between this country and India, and I hope that it will be possible to commence negotiations before long.

Hansard, Nov. 26th, 1953. Oral Answers. Col. 501.

Double Taxation Relief**SWITZERLAND AND UNITED KINGDOM**

Following a series of discussions in London and Berne over the last eighteen months between the Board of Inland Revenue and the Swiss Federal Tax Administration, agreement has now been reached at the official level on a proposed convention between the United Kingdom and Switzerland for the avoidance of double taxation in relation to taxes on income. Preliminary negotiations have also taken place for a convention relating to taxes on the estates of deceased persons.

Double Taxation Relief: Ceylon Food Subsidies Temporary Tax

The Board of Inland Revenue this week made the following announcement:

The Ceylon Food Subsidies Temporary Taxes Act, 1952, imposes with effect from the year commencing April 1st, 1952, a temporary surcharge at

10 per cent on the amount of Ceylon income-tax payable. This surcharge is a tax 'of a substantially similar character' to the Ceylon income-tax and profits tax and therefore qualifies for credit under the agreement with Ceylon.

The Ceylon rate of income-tax on non-resident companies is higher than that on companies resident in Ceylon; for 1952-53 the rates are 36 per cent and 30 per cent respectively. Under Article IX of the agreement it is provided that the rate of tax chargeable on non-resident companies shall not, where they are residents of the United Kingdom (as defined in Article II (1) (f)), exceed by more than 6 per cent the rate chargeable on companies resident in Ceylon. In some of those cases, however, the full 10 per cent addition for the food subsidies tax may have been charged, i.e. 10 per cent of 36 per cent, making 39.6 per cent in all as opposed to the agreement limit of 39 per cent. In such a case the additional 6 per cent is not available for credit and the company should be advised to apply to the Ceylon authorities who will give effect to such adjustments or repayments as may be necessary.

Death Duties

Regulations cited as The Death Duties (Revocation of Relief against Double Duty) (India) Order, 1953, came into operation on November 20th, 1953, and have been published as a statutory instrument,¹ the explanatory note to which reads as follows:

Section 20 of the Finance Act, 1894, provides by way of Order in Council for relief from double death duties in the case of property situate in any 'British possession' which does not levy duty on property situated in the United Kingdom or in which a reciprocal allowance is made. The section provides for revocation of an Order in Council made under its terms where it appears that the law of the 'British possession' has been so altered that it would not allow of the making of an Order.

This Order revokes the Order in Council dated February 2nd, 1895, in so far as that Order applied the provisions of Section 20 of the Finance Act, 1894, to Great Britain and India.

British Transport Commission: Acquisitions Division

Members of the panel of accountants appointed in relation to the acquisition of road haulage businesses under the Transport Act last Thursday entertained Mr Andrew Black, C.B.E., A.S.A.A., and his colleagues of the Acquisitions Division of the British Transport Commission at a dinner at *The Charing Cross Hotel*, London.

The toast of 'The Acquisitions Division' was

¹ S.I., 1953, No. 1684, H.M.S.O. 2d net.

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proposed by Mr James Blakey, F.C.A., and supported by Sir Reginald Wilson, C.A., Comptroller of the British Transport Commission. Mr Black, replied on behalf of the Acquisitions Division.

The dinner was held to mark the approaching termination of the work of panel accountants and their appreciation of the cordial relations which have existed between members of the profession engaged in this work and the Acquisitions Division.

The North London Discussion Group of Chartered Accountants

The North London Discussion Group held its second meeting of the current session on Thursday, November 19th. The subjects discussed were 'The psychological approach in selecting entrants to the profession', and 'Should the Council make recommendations?'

The next meeting will be on Thursday, December 17th. Members of the London and District Society of Chartered Accountants are eligible to join the Group, the subscription for the whole session being 5s. Further information may be obtained from the Hon. Secretary, Mr J. G. Shepherd, A.C.A., 8 Frederick's Place, Old Jewry, EC2.

The Chartered Accountant Students' Society of London

The following meetings of the London Students' Society will be held during next week:

Tuesday, 5.30 p.m.: Demonstration of mechanized accounting (limited number).

Friday, 1 p.m.: Lunch-time discussion of study problems brought by students.

Birmingham Students' Annual Dinner

Mr Denis F. Dodd, T.D., F.C.A., was incorrectly shown as Mr Denis F. Dodd, D.L., A.C.A., in the report of the annual dinner of the Birmingham Chartered Accountant Students' Society published in our last issue. We regret the error.

Our Contemporaries

THE JOURNAL OF ACCOUNTANCY. (New York.) (November.)

'The resurgence of the balance-sheet as a useful element in financial analysis', by William W. Werntz, LL.B., C.P.A.; 'Some problems regarding consolidated and parent company statements'—Survey by Research Department American Institute of Accountants; 'Some examples of useful variations in the modern short-form audit report', by John H. Myers, PH.D., C.P.A.

THE AUSTRALIAN ACCOUNTANT. (Melbourne.) (October.) 'Liability of Accountants for Negligence', by S. R. Brown, LL.B., F.A.S.A.

TWENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 15TH, 1928
A letter to the Editor.

Designation for Composite Firms

SIR,—We should like to ventilate in your columns the interesting question of the designation of firms of accountants who have some Chartered partners and some Incorporated. It is, of course, common knowledge that at present they can only style themselves "accountants and auditors," and as registration for the profession seems still a long way off, it would appear that the time has arrived when a composite firm of Chartered and Incorporated Accountants should be able to inform the world that they have some qualifications when their names appear on balance sheets, prospectuses, &c. The term "Chartered and Incorporated Accountants" is, of course, not correct, and would not be allowed by the Institute of Chartered Accountants. Such a term as "composite firm of Chartered and Incorporated Accountants" is very cumbersome. Can some ingenious reader suggest a designation which would be dignified, brief, and likely to be acceptable to both the Institute of Chartered Accountants and the Society of Incorporated Accountants and Auditors? Yours faithfully,
28th November, 1928. COMPOSITE.

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 14TH, 1878
Extract from a Note in Passing

The Incorporation of Accountants

... We believe that the intention of its promoters is to get all the other societies to follow its example of self dissolution. Then the new body will be formed, of course, of materials supplied by the profession at large. It is moreover clear that before consenting to perform the "happy despatch" upon themselves and take part in any such scheme of reconstruction, the other societies would require some guarantee that they would find adequate representation in the Incorporated Institute Council. That a preliminary process of dissolution is necessary will doubtless be generally admitted; for it would be impossible for several societies, with different rules and different terms of membership, to amalgamate with any chance of permanency. Clearly, therefore, one of the first matters to be accomplished is a definite agreement regarding the conditions which are to regulate the membership in the new society, and also as to the conditions upon which the old societies are to surrender their vested interests. We wish the scheme of the Institute of Accountants every success.

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The Accountant

ESTABLISHED 1868

DECEMBER 19TH, 1953

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CONTENTS

Leading Articles	<i>Page</i>
Costing for Christmas	677
Revenue Departments' Appropriation Accounts	678
Special Articles	
The Inspector of Taxes Interrogates: A Chance Acquaintance who bought a Small Business by <i>Wilfred Tullett, F.S.A.A.</i>	680
Britain's Paper Currency by <i>R. Robert, A.C.I.S.</i>	681
Economics in an Egalitarian Society by <i>A. H. Boulton, LL.B., A.C.I.S.</i>	683
Lecture	
Smaller Undertakings: Services which Accountants can Render by <i>F. T. Hunter, A.C.A., A.C.W.A.</i>	685
Questions for Christmas	688
Gilbert and Sullivan Double Acrostic by <i>Hugh Tierney, C.A.</i>	690
Weekly Notes	691
Finance and Commerce Court Line Ltd - J. Hepworth & Son Ltd - Money Market	693
Correspondence	695
Answers to Questions for Christmas	696
The Chartered Accountant Students' Society of London Fortieth Annual Dinner	697
The Nottingham Society of Chartered Accountants Dinner at the University	699
Reports of Public Companies: The Accountant Annual Award	700
Mathematical Crossword by <i>Gordon S. Moorhouse</i>	701
In Parliament	701
Notes and Notices	
Personal - Professional Notes - The Institute of Chartered Accountants in England and Wales - Solution to Double Acrostic - Costs of Trustees - Seventy-five Years Ago	703

COSTING FOR CHRISTMAS

THE cold and cheerless subject of accountancy has little in common with the warm-hearted festival of Christmas. It is with a mighty effort of will, therefore, that we restrain our natural *bónhomie* and instead of writing, for one week only, a tinselled leader as light as a sugar plum fairy, bring ourselves to consider, with our customary conscientiousness, a problem concerned with costing which has been in nearly every accountant's mind since the first intrusion of autumn on his summer serenity. (It might be noted in passing that members of the profession seem to possess greater equanimity in summer than in winter, but that is a theme which could perhaps be more happily expanded in an August Bank Holiday issue.)

The immediate proposition then is that every reader who is not in unfettered command of his fortune - that is, every married reader - must have been wondering uneasily during the past month or so what Christmas was going to cost THIS year. Whether or not he knows at the moment he begins to carve the turkey may depend partly on the efficiency of his personal accounting system and partly on how persistent his wife has been in her demands for a settlement of her out-of-pocket expenses. Male efficiency and female persistency apart, however, some paterfamiliaes - patres-familias - some fathers of families prefer the hedonistic approach and insist on living in a delightful, Horatian, fool's paradise of feasting and junketing until the holidays are over before attempting the sordid reckoning. January (they say) is such a catastrophic month anyway that it is just as well to lump all the misery together and get it over at once. Others, the lean and calculating kind, brood throughout the festive season if the exact liability is not known and provided for beforehand. But whenever and howsoever the tally is made, one thing is common to all calculations. In even the most scientific budget, carefully compounded of accounting logic and feminine intuition, the actual expenditure invariably exceeds the theoretical. To the innocent layman who knows no better, this unfavourable variance represents, in his blunt modern idiom, a 'dead loss', but to the accountant with his superior ability to temper truth with permissible tact, it may quite fairly be regarded as transferable to 'goodwill'. The result is the same but the latter treatment makes one feel momentarily a good King Wenceslas.

We hope that these few cautionary remarks have been helpful and to all our readers, be they efficient, persistent, hedonistic, lean and calculating, intuitive or just innocent, we extend our sincere wishes for a carefree Christmas and a solvent New Year.

REVENUE DEPARTMENTS' APPROPRIATION ACCOUNTS

Inland Revenue : Fraud and Evasion

PERHAPS the most interesting aspect of the Comptroller and Auditor-General's report on the 1952-53 Appropriation Accounts of the three great revenue departments¹ are his remarks on fraud and evasion in connection with the Inland Revenue duties. The progress of the drive against evasion is amply demonstrated by the figures reproduced below of the cases disposed of by pecuniary settlement in the last three years and the last pre-war year:

Year ended March 31st	Number of cases	Total charges raised	Penalties included
		£	£
1953	9,836	11,045,412	3,865,219
1952	4,962 ²	9,430,396	2,446,205
1951	2,838	7,469,568	1,735,049
1939	2,774	3,131,410	not known

The figures for the year ended March 31st, 1953, include 262 settlements dealt with by the special branch engaged in the investigation of important cases involving fraud; they produced £2,751,108. Another 5,955 of the 9,836 settlements were effected by local Inspectors under the modified procedure for settling back duty liabilities of small traders and others, to which we referred in our issues of December 6th and 20th, 1952. The 5,955 cases produced £2,123,194.

In addition to the 9,836 cases, local Inspectors effected settlements in cases relating wholly to income-tax on untaxed interest, allowances, etc., where the matter was not so serious. The figures of these additional cases are as follows:

Year ended March 31st	Number of cases	Total charges raised
		£
1953	136,188	5,389,215
1952	5,218	420,650
1951	1,654	165,344

The enormous leap in the total number of cases last year is attributed to the notifications of bank interest in excess of £15 under the Finance Act, 1951, Section 27 (now the Income Tax Act, 1952, Section 29). Up to March 31st, 1953, 1,200,000 notifications (including 600,000 from the Post Office Savings Bank) were received in respect of interest for the two years ended April 5th, 1952.

¹ House of Commons Paper No. 12, 1953-54. H.M.S.O. 1s 9d net.

² Revised since the previous report.

These notifications brought to light some 330,000 cases of under-assessment or non-assessment, of which 139,000, involving about £7 million tax, were settled in the year ended March 31st, 1953, and are included in the figures given above.

It is disquieting to learn that one person in four was failing to return the interest received by him. It is also perhaps significant that the report on the Post Office includes the information that, during the calendar year 1952, withdrawals from the Post Office Savings Bank exceeded deposits by £108 million. If and when the Inland Revenue are able to cope with an extension in the scope of notifications of bank interest, it will be worth considering legislation to lower the minimum of £15 interest as qualifying for notification. The tax on the interest itself may be relatively small, but the discovery of small discrepancies in a return often leads to more serious disclosures.

There has been much adverse comment of late about the power of income-tax offenders to buy themselves off. No figures of criminal prosecutions are given in the present report, but according to the report of the Inland Revenue itself for 1951-52 (the latest available) there were eight prosecutions in that year for false accounts and returns and fifteen prosecutions for false claims to allowances. All but four of these prosecutions were successful. These numbers are very small indeed compared with the 4,962 cases where a pecuniary settlement was reached.

Excess Profits Levy

Excess profits levy, that damp squib, produced less than £3 million, against an estimated receipt of £5 million. At the same time profits tax was down on the estimate by no less than £76 million. It is interesting to compare these figures with the actual collection for the period from April 1st, 1953, to November 28th, 1953. The excess profits levy collected in this period was £44,350,000 against nil in the corresponding period for the preceding year. Against this there was a fall of more than £134 million in profits tax.

The total charge to excess profits levy raised up to March 31st, 1953, was £10,346,000, of which no less than £7,187,000 was outstanding

at that date. Nearly half of the total charge was not made until the last month of the year.

Although the levy will terminate at the end of the present month, there will no doubt be a delay of several years before it is finally wound up. The excess profits tax outstanding at March 31st, 1953, was £129 million, although that tax terminated in 1946.

Remissions and Amounts Abandoned

Rather more than £3 million in tax was remitted by the Inland Revenue or written off as irrecoverable. The analysis is as follows:

Income-tax	£
Sur-tax and super-tax	1,833,883
Excess profits tax	348,406
Other duties	775,048
	117,455
	<u>£3,074,792</u>

This represents £624,623 more than in the previous year.

The analysis by reference to grounds of remission or write-off is as follows:

<i>Remissions</i>	£
On grounds of poverty	168,796
On grounds of equity	238,049
Miscellaneous: amount not sufficient to justify cost of proceedings etc. ..	244,355
<i>Amounts irrecoverable</i>	
Insolvency	1,519,872
Composition settlements	243,270
Realization of securities	19,647
Miscellaneous: liability unenforceable etc. ..	640,803
	<u>£3,074,792</u>
Remissions of law costs amounted to ..	<u>£7,040</u>

Building Societies : Special Arrangements

The report observes that the arrangements with building societies, made under statutory authority given by the Finance Act, 1951, Section 23 (now the Income Tax Act, 1952, Section 445), follow the same lines as the previous extra-statutory arrangements. Of course one change is that interest paid to shareholders and depositors is grossed up for sur-tax purposes.

The compounded rate which societies within the arrangements pay is based primarily on the results of statistical investigations by the Inland Revenue, including a sampling of the actual liability of individual investors named in lists furnished by the societies. The compounded rate so arrived at is deemed to represent the average rate of tax which would ultimately have been borne by the investors if income-tax had been

deducted at standard rate from their interest and repayment had been claimed where appropriate. It follows that in general the tendency is for the poorer investor to contribute to the payment of the tax of the richer.

The Comptroller expresses doubt as to one element in the determination of the compounded rate. The societies claim to share in the saving in costs of administration accruing to the Inland Revenue as a result of the arrangements. The section does not, however, provide for the inclusion of such an element; it directs that the arrangement shall aim at securing that the total *tax* shall be the same as if the powers under the section had not been exercised. Moreover, the societies themselves are understood to derive very great administrative saving on their own side as a result of the arrangements. The Comptroller asked the Inland Revenue whether legal advice had been received on the question but was told that no such advice had been sought. The societies' claim, although not expressly conceded, has been taken into account in arriving at a settlement of the compounded rate.

Exemption of Officials of International Organizations

Under the International Organizations (Immunities and Privileges) Act, 1950, which consolidated earlier statutes, there is power to confer exemption from tax to officials of a number of international organizations, irrespective of their nationality or place of residence. The power has to be exercised by Order in Council. The Comptroller observes that although no Order in Council has yet been made in favour of officials of the North Atlantic Treaty Organization, the Inland Revenue has allowed them tax exemption as from July 1951. It is also stated that the Inland Revenue sometimes allows exemption from a date earlier than that laid down in the relevant Order in Council.

Inland Revenue Expenditure

The total cost of running the Inland Revenue was some £30 million, over a fifth of which was for the Valuation Office. The salaries of that office were nearly a third of the salaries of the remainder of the department.

Among the miscellaneous expenses there is an *ex gratia* payment of 200 guineas to a 'private chartered accountant' for his services to the department as a trustee in bankruptcy.

THE INSPECTOR OF TAXES INTERROGATES: A CHANCE ACQUAINTANCE WHO BOUGHT A SMALL BUSINESS

by WILFRED TULLETT, F.S.A.A.

The Editor informs readers that the characters and places in the following article are purely imaginary and that no reference is intended to any living person or to any particular place.

SCENE: *A warm, sunny morning in the pinewoods at an inland spa. Resting on a seat amongst the trees is a tall, middle-aged man, his legs stretched out in front of him. He is obviously on holiday, and enjoying himself. He has just been joined by a short man who has placed a book on the seat beside him.*

SHORT MAN: What a lovely morning for the time of year; nice time of year for a holiday.

TALL MAN: I agree. I always think that every fine day now takes one day off the winter. I see you have been buying a book. What kind of reading do you like?

S. M.: Oh, I have not purchased this book because I like it. It is a book about income-tax.

T. M.: That's a bit odd!

S. M.: Odd? Why?

T. M.: As it happens, I'm an Inspector of Taxes!

S. M. (*amused*): Well, that certainly is a bit odd. The book would not be of much use to you.

INSPECTOR: Maybe I can help you.

S. M.: No doubt you can, but I am not going to get you to talk shop on holiday. You will have plenty of that when you get back home again.

INSPECTOR (*who has taken to the little man*): Rubbish! It's no trouble at all. What is your difficulty?

S. M.: It's like this. My wife and I have just bought a little business. That is, I have purchased the business, and my wife and I have decided to run it together. We complete the purchase next month. It will be an uphill fight for a few years, but we think we can make a success of it. I bought this book in the hope that I can find out how to deal with the value of the services which my wife will give in the business and which otherwise I would have to pay for.

INSPECTOR: There is no particular difficulty about that. Pay your wife what the services are worth, and charge it against the business income as an expense. You will receive the benefit of allowance for this within the statutory limitations.

S. M.: Yes, but that is where my difficulties begin. Although my wife will be giving valuable services in the early years, I shall not, so far as I can see, be able to pay my wife any actual wages, as I shall not have the money. We shall have to plough back into the business any small surplus

there may be. Further, if I did pay my wife wages, and then took the money back again into the business, it would not look like a bona fide transaction, would it? I would be bound to have trouble with my Inspector of Taxes later.

INSPECTOR: You seem to have been giving the matter a lot of thought.

S. M.: I have, and I've been running round in circles in consequence. But I'm not done yet. If anything happens to me, I want everything to be as easy for my wife as possible. I do not wish her to be short of money until probate comes through. Yet all our money will be tied up in the business. Life being uncertain, my wife might find herself in difficulties at any time.

INSPECTOR: It all sounds very involved, but actually it is quite simple.

S. M.: Then just what have I to do?

INSPECTOR: Take your wife into partnership. Proof of payment of wages to the wife is not required where it can be established that the wife is actually a partner. Thus you receive the tax relief for wife's help in the business. If the business makes a loss in the early years, you can, of course, carry forward the loss. If the business prospers, the wife's share of the profits will attract the statutory reliefs on her earned income in addition to your own. Finally, if you die, your wife, being a partner, can continue to draw cheques on the firm and so deal with her early difficulties. Therefore, all you have to do when you get home after this holiday is to see your solicitor, and get him to prepare a partnership deed. You will find then that this arrangement will cover all the points you have in mind.

S. M.: That's grand, and I am very grateful.

INSPECTOR: I am glad to have been of assistance. Now (*looking at his watch*) it is nearly eleven: the morning concert commences in a few minutes in the Pump Room. Would you like to join me there in a cup of coffee? Don't forget your book!

[*The two men stroll off through the trees towards the Pump Room in the distance, the little man, with his hat at an angle, swinging his walking stick as he goes along. He has to trot rather to keep up with his long-legged friend.*]

BRITAIN'S PAPER CURRENCY

by R. ROBERT, A.C.I.S.

THE way in which paper currency first came to supplement and then largely to supplant gold, silver and copper, constitutes a story of most enthralling interest. For the beginnings of the process we have to go back, so far as Britain is concerned, to the seventeenth century, in the middle part of which we find many goldsmiths putting aside their craftsmanship for the more lucrative activity of banking. At that time there was no currency apart from the metal coinage, the shortcomings of which from the point of convenience alone were being severely felt. Moreover, with expanding commercial, to say nothing of Government, needs, specie was proving inadequate in other directions.

The Running Cashes

As is well known, the goldsmiths were in the habit of storing in their strong-rooms plate, jewellery, and hoards of coin belonging to the wealthy London merchants who in those days lived in constant fear of the royal prerogative and forced loans. Up to 1640 they had deposited their treasure in the Mint, then lodged in the Tower of London, but when Charles I, in a moment of financial embarrassment, appropriated the sum of £120,000 they not unnaturally sought out other hiding places. By 1645 much of their accumulated capital had found its way into the vaults of the goldsmiths, who paid interest on deposits. Clients of the goldsmiths were given receipts and it was soon realized that these receipts could be passed from hand to hand.

This was an important development, but one even more so was the operation by Child, Hoare, and other early goldsmith-bankers, of what were known as the 'running cashes'. These were in effect current accounts which could be drawn upon by means of a letter, or 'drawn note', which instructed the goldsmith to pay over a stated sum to a third party and to charge the account. The arrangement was a simple one, advantageous to all concerned, for the customer's money was secure in the goldsmith's coffers, and he in turn had funds from which he could make loans. The 'running cashes' therefore became, so far as the wealthier members of the community were concerned, a popular institution.

Bank of England Notes

Great forward steps in the evolution of paper-

money were made after 1694, which year saw the Bank of England formally incorporated. During the early days of the Bank there was some indecision as to the form which the notes should take. Three suggestions had been put forward, the most far-reaching in its consequences being the one to give depositors in exchange for their money 'Notes payable to bearer'. This suggestion was considered a practicable one and was at once put into operation.

Several interesting points are to be observed in connection with the early Bank of England notes; for example, they were often for irregular amounts, with odd shillings and pence, and they had to be endorsed. But the Bank also began to issue notes for round sums and these gained a ready acceptance, particularly the £5 and £10 notes. And so towards the end of the seventeenth century paper-money was a *fait accompli*, something which was badly needed, and something which had obviously come to stay.

Of course, the change was not effected without opposition. There were, indeed, clamorous critics, some of them perspicacious enough to foresee how the new form of currency could be abused. The Bank itself was soon made aware of one of the major disadvantages of paper, namely, the temptation it put in the way of the forger. One of the most adventurous of these conducted his operations on a grand scale. Not only did he print his notes on a private printing press, but he manufactured his own paper, and even his own ink. These thorough-going methods enabled 'Old Patch', as he was called, to defraud the Bank of £200,000; though it has to be recorded that justice did, eventually, lay him by the heels.

However, the objections (if not the temptations) were overcome, and soon notes payable to bearer were circulating freely in London, and also in the provinces, where private bankers issued notes against deposits. The year 1708 saw statutory recognition given to the Bank of England note, for Parliament passed an Act prohibiting any other corporation from issuing notes, the privilege being restricted, apart from the Bank, to private partnerships consisting of not more than six persons.

War and Paper-money

It has already been stated that expanding trade, coupled with an actual shortage of metal coinage,

helped to hasten the advent of a supplementary currency. But we must not overlook the fact that the midwife, as it were, of paper-money, was a costly war then raging between this country and France. The Bank came into existence because William III needed money with which to wage the struggle against Louis XIV; and war, it is apparent, played an important part in the subsequent history of paper-money, if only by stimulating the quantity of it in circulation.

The Napoleonic Wars certainly had that effect. On both sides the financial demands were so great that they could, indeed, only be fought with the aid of the printing press. In England the mere rumour of a French landing in 1797 was sufficient to start off a panic demand for gold, and the switch-over to paper-money began in earnest when, on February 26th, 1797, the King in Privy Council approved an order for the 'temporary' suspension of payments in cash. Thus were the flood gates opened, and the state of confusion at the Bank at this time may be inferred from the blank in its minute books. For a full month nothing was recorded.

Although the Court of Directors affirmed that the Bank's affairs were as prosperous as ever it was unable, henceforth, to guarantee gold in exchange for paper. The suspension continued in force until 1821, by which time the monetary system had been revolutionized.

At first suspicious of bank notes, people gradually became accustomed to their use; even the wage-earners and small shopkeepers, for whose convenience the Bank had, right at the beginning of the crisis in 1797, issued £1 and £2 notes. In Scotland 5s notes were printed in an endeavour to overcome the chronic shortage of small change – which in England was partially solved by the issue of tradesmen's tokens.

Two other steps may be noted as of some importance in the establishment of a paper currency. An Act of 1826 broke the 'Old Lady's' monopoly to some extent by permitting the formation of joint-stock banks, provided they were sixty-five miles out of London, and had unlimited liability. They had the right to issue notes. But the Bank of England scored heavily in 1833 when its notes, of the value of £5 and upwards, secured recognition as legal tender, and again in 1844, when the Bank Charter Act prepared the way for the eventual concentration of all note issues under its authority.

Treasury Notes

The country theoretically returned to gold in 1816, but it was not until 1821 that convertibility

was achieved in practice. Fresh supplies of coin were put into circulation, and paper-money, after 1844, was restricted to the fiduciary issue of £14 million; any notes in excess of this amount having to be backed by the metallic reserve. But the First World War again put the entire system into reverse. Gold was withdrawn, and the Government fell back on the engravers and printers. The Currency and Bank Notes Act of 1914 removed all limits, and the country was deluged with £1 and 10s Treasury notes.

Again, after the First World War, as after the Napoleonic Wars, a return to gold was considered advisable, and effected. In 1928 the Currency and Bank Notes Act was passed, with the result that outstanding Treasury notes and Bank of England notes were amalgamated into a single issue. The Bank, which had previously been restricted to notes valued £5 and over, was authorized to issue £1 and 10s notes, which were also made legal tender.

Events in the monetary field during the Second World War, still fresh in the memory, will need little recapitulation. Our paper currency, freed under Defence Regulations from all fiduciary limits, was subjected to its most severe test. The note circulation attained record high levels, and periodically the menace of inflation caused the gravest concern. But disaster, such as overtook some continental countries, was avoided.

The Cheque System

That useful instrument, the cheque, by means of which some 90 per cent of all payments are made in this country, and in America, has also behind it an interesting pedigree. We saw how the seventeenth-century goldsmiths began accepting deposits from their customers, and how they operated 'running cashes' or current accounts.

To facilitate the transfer of money to third parties (or payees) the goldsmiths provided their depositors with 'check' books. Current accounts were also opened by the Bank of England in its early days, yet the cheque system, as we know it, was essentially the creation of the London private bankers. As already mentioned, they were permitted by the Act of 1708 to issue notes, but finding the Bank of England notes supreme in the metropolis, they had early discontinued the practice. Instead they developed deposit banking, and by 1773 printed cheques were being used to such an extent that a clearing house had to be set up. When, sixty years later, in 1833, the joint-stock banks were permitted to open offices in London, the cheque system was considerably reinforced.

ECONOMICS IN AN EGALITARIAN SOCIETY

by A. H. BOULTON, LL.B., A.C.I.S.

The outstanding social phenomenon of the twentieth century is the narrowing of the differential between rich and poor, which had hitherto existed unchanged for centuries. In this article an attempt is made to assess some of the long-term results of this change.

HOW far, in thirty-five years, Russian communism has succeeded in its aim to create a classless society is open to argument. Meanwhile Britain, and some other countries of the western tradition, without having any such goal consciously before them, have gone a long way towards the creation of an egalitarian social order.

We have not gone all the way, and it is far from certain that to do so would be desirable or possible. We cannot end all class differences because it is natural for the human being to sort himself out according to his affinities, like cleaving to like, but it is becoming evident that education, culture and intelligence are very much more potent in this segregation of classes than are the purely economic factors which were formerly all powerful.

The Narrowing Differential

In 1696, one Gregory King compiled statistics based on returns for the hearth tax in 1688. He purported to show that 160 'temporal lords' enjoyed incomes per family of £2,800, whilst at the other end of the scale, a million families of labourers, cottagers and vagrants subsisted on an average of £15 per annum per family. A hundred years later, the income figures at each end of the scale had approximately trebled to £8,000 and £40 respectively, but the differential remained almost unchanged. Income-tax, of course, had not as yet entered the picture. In 1887, when the wages of the labourer were approximately fifteen shillings per week, the stipends of Her Majesty's judges were fixed at levels up to £8,000 per annum, indicating the kind of income which was accepted as proper for a leader of society.

The phenomenon of the twentieth century has been the narrowing of the differential. It is significant that the judges' stipends have remained unchanged for sixty-six years, during which period the rates of income-tax have increased to their present levels, sur-tax has been born, and concurrently with successive inflationary movements, the wages of the labourer have increased nearly tenfold. It is manifest that today the ratio between the *net* incomes of the labourer and the

most wealthy, apart from the use of lawful or unlawful devices to evade tax, is of the order of 1 to 10 instead of 1 to 100 or 200 as had been the case for long centuries until only forty years or so ago.

The causes of this swift evolutionary change are not far to seek. They include taxation from above, and pressure from below deriving from the bargaining strength of labour in combination. Most would agree that society as a whole is richer rather than poorer for the change, but whether it has now gone far enough or too far would be a matter of opinion, with which this article is not concerned. Our purpose here is concerned with the facts and the future.

Now the facts quoted relate to Britain and are common knowledge. Some other countries have not gone so far. The U.S.A. is probably on the same road, but in some countries of continental Europe, extremes of wealth and poverty still remain wide, and notwithstanding the passion of her rulers for social change, India manifests an enormous contrast between classes. Because the change has been so recent and because economic effects result from the interplay of forces operative on a world scale, the full consequences of the narrowing of differentials have not yet been felt, but if it is true that the road we have travelled in England is one which other peoples will be forced to follow, some of the inevitable consequences are startling.

Traditional Values

The first is that our customary ideas of values will be upset and a certain range of articles, whose monetary value is entirely artificial rather than intrinsic, must inevitably lose that value. This class includes such things as diamonds, furs, and *objets d'art*.

That there is an intrinsic value in diamonds is an idea which dies hard, but to say that a particular stone is worth £5,000 is true only so long as there is someone able and willing to pay £5,000 for it. The equally artificial valuation of antiques, museum pieces, original manuscripts, first editions, old masters, and rare postage stamps may, to some degree, be maintained by the competition between one public collection and another; but it is doubtful whether such a buying

public, without the influence of the rich private collector, will sustain the present values, based as they are upon the existence of the rich. It follows that it may today be a doubtful wisdom to use expensive jewellery and the *objet d'art* as a means for the long-term locking up of savings.

This question of savings raises a more immediate economic consequence of the narrowing of differentials. We are frequently told that the country is not saving enough and we know it to be true. In the past, however, saving came from the surplus of the rich. When, as is now the case, the entire population lies within much narrower income brackets, the tendency to 'keep up with the Jones's' prevents most people from saving more than a small fraction of their income. No amount of exhortation is likely to alter this, and there is no prospect whatever of the habit of saving in the Victorian pattern being resumed.

It may be that forced saving through taxation will be forced upon us by sheer economic necessity, with the consequence that dependence upon Government sources of finance may lead to a quasi-nationalization of industry. The alternative of saving within industry by the ploughing back of profits can be maintained only when profits are high, and may lead to a running down of assets in bad times.

Institutionalizing Investment

The one form of saving which, far from decreasing, has grown enormously is life assurance, and concurrently with it the development of pension and provident funds. These probably absorb the major part of personal saving today and in consequence the principal flow of new money into investment is institutional. This tendency is gradually interposing an impersonal intermediary between the actual saver, i.e. the policy holder or contributing member of a provident fund, and the industrial and commercial entities in which his money is invested. This, if continued, will have two effects. It will gradually tend to accumulate power into the hands of the directors of the great insurance companies. It will also cause the limited company to be an anachronism. For the whole basis of company law and theory is the idea of a glorified partnership, conducting its affairs through an elected committee. The idea may indeed already be anachronistic, belonging as it does to a property theory of democracy which has long passed out of politics, but even if that theory is acceptable, the growth of institutional investment will evacuate it of its remaining significance, because the true investor will have abdicated even his shadowy control. An egalitarian society

will need a new theory of the business unit and perhaps even a new legal form.

The Family Business

The large family business is probably doomed, however much we may regret its passing. In the past it was possible for enterprise and thrift, hand in hand, to build up great businesses from humble beginnings. With income-tax, sur-tax and death duties at their present levels such development is well nigh impossible, and it is a noticeable and regrettable fact that those large family businesses which have survived are one by one being forced to become public companies.

While on the one hand private holdings in such businesses are placed upon the market, and on the other, the new money flowing into investment is mainly institutional, we are moving gradually to a pattern of ownership in trade and industry which, while the legal forms remain unchanged, is vastly different from that which was in the minds of the architects of the first Companies Acts.

Egalitarianism in society is also imposing a new pattern of social life. In the ancient world, a man's wealth was indicated by the size of his slave household, and down to the last century the number of one's retainers was an index of one's place in society. After all, it was not difficult to surround oneself with menials if the ratio of their wages to one's own income was of the order of 1-200.

Now it is different. The well-to-do housewife who complains of the servant problem is an illustration of the current economic revolution. In consequence changes have come in the design of houses and furniture. The baroque and the exuberant have given place to simplicity and functional design. It is unlikely that anyone would build a mansion today, and those who possess them find themselves with a liability rather than an asset. Thus real property, which by reason of its immovable nature is affected by conditions only in our own society and cannot have its values sustained by influences in a world market, has shown the effect of a levelling of society before that effect has become evident in the values of movable things.

To sum up, we are partakers in a vast social revolution. The old landmarks are passing away. New values and new patterns of life must emerge, for what has happened in the last forty years has never happened before in any country through the whole of recorded history. For in the sense in which the words were used a generation ago, there are now neither rich nor poor.

SMALLER UNDERTAKINGS SERVICES WHICH ACCOUNTANTS CAN RENDER

by F. T. HUNTER, A.C.A., A.C.W.A.

THE title of this article may seem to imply that an accountant's service to smaller undertakings is different from his service to larger ones. I don't think that this is really true; I suggest that the title would be better expressed as 'In what way can the accountant render his services to smaller undertakings?'

Accountants have certain services to render, and those services are precisely the same in any size of undertaking. What is different is only how it is done. The problems facing large and small concerns are basically the same, and mere size only makes the problem larger or smaller. It is the same set of problems all the time.

Different businesses obviously have some different problems; all businesses have many common problems, but there is very rarely a unique problem that is found in one concern only and which has no bearing on other concerns. As undertakings grow in size there is greater scope and greater need for frills and for elaboration, but the basic problems are there just the same.

Types of Accountant

There are various types of accountant and I do not think that this paper should be confined necessarily to the accountant in practice, because much valuable service is obviously rendered in various ways to large and small undertakings by accountants who have taken up appointments in industry.

Accountants could perhaps be grouped broadly as follows:

(1) Accountants who have really ceased to be pure accountants by becoming whole-time executive directors and managers. They often combine this sort of function with that of finance controller, or chief accountant, and there is a Jekyll and Hyde situation.

(2) Professional accountants: those in practice, who undertake auditing, taxation, liquidations, etc.

(3) Industrial accountants: those who have taken up appointments as financial or cost accountants, or combinations of both, in industry, including under this head such things as banking, insurance, etc.

(4) Specialist accountants who are in practice but in a specialized field, for example, carrying out a client service covered by the current expression 'management accounting'.

(5) Accountants who have gone into industry but on the secretarial side, and have to a large extent ceased to be accountants. These are probably comparatively few, and it is much more common for the chief accountant to act as company secretary almost as a sideline.

A lecture delivered to the Birmingham and District Society of Chartered Accountants on November 17th, 1953. Mr R. B. Dixon, President of the Society, was in the chair.

There are endless varieties under these broad groups; for example, there are many accountants who provide a specialist service to undertakings as the whole-time official of a trade association. I do not think, however, that it would be very helpful to the present subject to try to be more precise.

If we examine these broad fields, perhaps I can suggest some ways in which accountants can render their services to the smaller undertaking under each heading.

Executive Directors and Managers

Where an accountant has taken up an appointment as a whole-time executive director or manager in a smaller undertaking, it is likely that he will, because of the size of the undertaking, fulfil more than one function. As the undertaking grows this will tend to disappear and it becomes one man - one function, until you get to the managing director who may be said to embrace every function.

In the smaller undertakings, however, there is a distinct possibility that the appointment of an accountant to an executive managerial position also closes the door to an outside accountant in the purely accounting fields, and even in specialist fields. The executive may have sufficient spare time to keep abreast of modern ideas on accounting, and to inaugurate and develop new methods within his organization. It may not be his precise function but if he is energetic and has the time he will do it.

He may take over the tax work, for example, which was formerly done by the auditors; he may act as registrar, and look after many other things formerly done by outside accountants.

On the other hand, there are many smaller undertakings where an outside accountant, because of his general training and experience, could render most valuable service as a part-time executive, while carrying on his own day-to-day practice. He is usually available at a moment's notice if a crisis develops, and it can often mean that a small undertaking can command, in this way, a quality of executive direction that it could not possibly afford on a whole-time basis.

I am not thinking so much of the functions such as finance director as those of a day-to-day executive nature.

There are many businesses where the attendance, say, twice a week of a first-class executive who says on Monday, 'Do this and do that' and comes back on Thursday and says, 'Have you done it, and if not why not?' could be all that the concern needed in the way of top-level direction.

In general, however, I think we must acknowledge

that the tendency in smaller undertakings, as a result of the employment of an accountant as a whole-time executive director or manager, would be away from the use of outside accountants. We can console ourselves, perhaps ruefully, that at least an accountant is doing the job.

Practising Accountants

(a) Auditing

Auditing covers the statutory audit and the internal audit. There are restrictions on who can be a statutory auditor, and without wandering away from my brief and discussing the Companies Act, can we leave it that in general an auditor carrying out a statutory audit would be an outsider, and we hope always a properly qualified practising accountant.

The service he would render would be exactly the same to a large or small concern; he would bring the same skill and knowledge to bear, and the only difference is that of size. The degrees of complexity which go with size are only refinements of a basic function which do not change the basic function itself.

Internal auditing is, however, somewhat different. There are many concerns of great size which do not have anything approaching an internal audit department, but as a generalization it is probably true that internal audit departments are found in the larger undertakings rather than the smaller.

Here, it seems to me, there is a wide field for the outside professional. It is common to think of an internal audit department as carrying out a function allied to and very similar in essentials to that of a statutory auditor, but the wise concern gives it much wider terms of reference and pays close attention to whether the authorized system is being carried out or whether individual whims and fancies have crept in, and, indeed, whether complete duplicate departments have not grown up because A. did not trust B.

There is much scope, therefore, in smaller undertakings in persuading them first to lay down what the authorized procedures should be, and then to carry out a periodic check by complete outsiders that these procedures and no other are in vogue. In addition, there should be regular routine checking of accounting facts and figures of an orthodox auditing nature.

The procedures themselves should be vetted periodically to ensure that they still are valid, and that there are not either changes of circumstance, nor better methods devised since the original procedure was laid down.

The practising accountant, with his wide experience, can quickly sort out the essential facts and figures, and provide a relatively cheap but expert service that a small concern could probably not afford if it tried to organize it on a whole-time basis. This sort of work is often referred to as a 'desk audit'. Mr T. G. Rose, in his excellent and well-known book¹, called it the 'management audit'.

(b) Taxation and Similar Matters

In matters such as taxation, purchase tax procedures, census of production, the hundred and one things that a practising accountant is asked to do, I doubt whether he could do much more in the way of providing a service to his smaller clients than he already does. He keeps up to date with new Acts, Statutory Rules and Orders, and so forth, and places this knowledge and know-how at his clients' disposal.

There is much competition from banks, solicitors, ex-Inspectors of Taxes and the like, and the accountant can only strive to keep his knowledge, experience and *expertise* that much better than that of the next man.

The larger companies very often have their own specialist departments such as taxation, but here again we find that accountants are prominent and are rendering first-class service.

Industrial Accountants

So far the only suggestion I have made where the outside accountant could perhaps widen his service is really in the industrial field.

Very broadly, industrial accountants fall under two heads: financial accountants responsible for keeping the books, and cost accountants responsible for saying what each product or process costs. There are many cases, of course, where the two are merged in one official but both are still there as separate functions.

I am not trying to belittle financial accountants in saying 'keeping the books' and I include under that simple head all the policy-making work that a financial accountant does, in addition to his pedestrian function of a book-keeper. Equally, a cost accountant embraces a large area of policy-making work in interpretation, forecasting and so on.

Can we first think of the mechanics of these functions rather than the theory behind them?

In the larger businesses there will almost always be individuals carrying out the mechanics to a greater or lesser degree and there is, perhaps, little scope for a better service by outsiders. The work will be done by some form of accountant, even if only a self-taught one, and let us admit that there are very many most expert self-taught mechanics.

In the smaller businesses, however, the available funds very often do not allow of the employment of top-quality men, or even very often adequate men rather than top quality.

A way of dealing with this situation is for professional accountants to undertake the work on a part-time basis, leaving perhaps the books of original entry to be prepared by the client every day, and the ledger posting and preparation of accounts being carried out by the professional, say, monthly. You will, no doubt, all remember a recent article in *The Accountant* advocating a book-keeping service in which there was a whole-time staff who did nothing

¹ *The Management Audit*. Gee & Co (Publishers) Ltd.

else but write up books and prepare accounts for clients. There seems to me to be much merit in this idea.

Cost Work

Similarly with the mechanics of cost work, there seems to me to be a field where most useful work could be done by professionals on a part-time basis for the smaller undertakings, in assembling into coherent and intelligible shape the mass of detail compiled by the concern's own staff.

In this way, small undertakings would have the benefit of wide experience drawn from concerns of all sizes, and it would be inevitable that not only would the work be done perhaps much better but that new ideas would be constantly thrown up for discussion and trial.

The smaller clients would, in effect, be having the services of a staff with much wider scope and experience than probably any one man that they employed whole-time could have.

There is the point, also, that many otherwise excellent financial or cost accountants do not become aware of how to do things in a new and better way merely because they have no time to go and find out. In the larger organizations provision is usually made for this and the time-table is sufficiently elastic for the top men to take an hour or so off for research.

Similarly, there is work such as advice on mechanization, which type of system to adopt and so on. But probably an adequate service on the whole is given in this respect.

Specialist Accountants

Turning to the question of how to do things, rather than the mechanics of doing them, the door is wide open.

There are specialists who do almost nothing else, but far too few of them, and there are, of course, many whole-time industrial accountants who are experts in all the aspects of this field.

I profoundly disagree with the gentleman at Scarborough who, during the short discussion on management accounting, said, if I understood him correctly, that chartered accountants should recognize their limitations and leave this work to those who knew how to do it. This is, surely, a defeatist attitude, and the correct one to adopt, if one has doubts as to one's knowledge or experience, is to go out and get the knowledge and experience.

Industry is crying out for guidance and this is particularly true of the smaller men. By far the largest proportion of industry is in the hands of small men, and it is a sad thought that a very high proportion of worth-while businesses have a life of ten years or less. Why is this so? Very often because of sheer ignorance of what can be called the 'economics of the business'.

Chartered accountants can seize this opportunity, and particularly to their smaller clients, constantly preach the gospel. Without trying to appear grand-

fatherly or clever myself, may I stress that before adopting such a policy you must know what you are talking about, you must be convinced that the ideas and techniques that are embraced by management accounting are the true gospel, and that the old ideas and methods such as accounts once or twice per annum are not good enough today.

One often meets the argument that the smaller undertaking cannot afford expensive experts, but this is met, I think to some extent, by part-time service. The outside adviser can lay down what should be done and come back at regular intervals to see that it is done, and lay down the next step.

The interpretation of the results and the policy guidance that should flow therefrom can be given also by the outsider at regular meetings. There is much to be said for this method, where the outside expert is retained on a more or less permanent basis.

Very often, however, it is no cheaper in the long run for the installation work to be spread over an extended period. It is often much better for it to be done completely at the outset and then for the outsider to become a part-time interpreter and adviser.

In the smaller undertakings there will probably be less frills and detail than in a larger one, and more is apparent from comprehensive personal knowledge than can be possible in a mammoth organization. But basically the problems are just the same.

I am not saying that there are few large organizations which require expert accounting advice. There are very many which need it badly but in general, as organizations grow, so can the quality of the staff grow. This means that there is less scope, probably, for continuing expert advice and guidance after the initial installation period. There are enough top-class men available in the larger organizations who can absorb the knowledge, and acquire the necessary skill in interpretation.

It is, in the present development of the use of management accounting, far harder to draw a distinction between a service to large as against small undertakings because the need is so great throughout industry. There are signs, however, of an awakening, and a suspicion, perhaps dim as yet, that those of us who specialize in this field have something of real value to offer.

I can only emphasize that, in my view, chartered accountants have a priceless opportunity now, but it must be seized now and not tomorrow. If it is left until tomorrow others will seize it today.

Company Secretaries

In the company secretarial field the pattern is much the same as I have suggested in other fields. The larger concerns can, and indeed obviously must, employ whole-time secretaries. In the smaller concerns there is often either the combination of the duties of secretary and chief accountant, or there is the employment of an outside professional as the secretary on a part-time basis.

I am well aware that many firms already do much of this work, and some have departments which are set up to provide this service exclusively, particularly to trade associations and the like rather than individual companies.

Again, I doubt whether a better service could be provided than is already available. The professional has his knowledge and skill and places it at his clients' disposal, large or small.

Conclusion

There are doubtless many more points I could have mentioned but it seems to me that always one comes back to the position that it is not the service itself that is different between large and small concerns; it is only how that service is carried out.

In general, the large concern does much of the work for itself, and where the work is that of accountancy it hires accountants of the right calibre and

experience. In the smaller concerns there is less scope for employing whole-time accountants of the necessary quality and the professional can fill this gap by providing a part-time service, either in the way of doing the work, the mechanics, or in the way of giving advice on what to do – the science.

But there is the provision all the time by accountants of the same basic service.

Where I see an opening for a greater service is, as I have suggested, in the field of management accounting, and here again there is much the same picture of a whole-time or part-time service.

There is this difference, however, in that management accounting is something a little newer and there is much scope for general education of industry, both large and small, in a number of fundamental principles that are all too slowly gaining recognition. This is the chartered accountant's real opportunity, and it only knocks once.

QUESTIONS FOR CHRISTMAS

The answers will be found elsewhere in this issue

Bus and Tram

1. What Victorian poet died of heart failure while running after a tram-car in Liverpool?
2. Which eight central London bus routes traverse the entire length of Piccadilly?
3. What is the derivation of the word 'tram'?
4. 'He thought he saw a Banker's Clerk
Descending from the bus:
He looked again, and found it was
A . . . ' What?
5. Who wrote *The Celestial Omnibus*?

Cock and Bull

6. What was to be the reward of Wilfrid Shadbolt for telling 'a tale of cock and bull'?
7. Who remembered on his deathbed that he owed a cock to Aesculapius?
8. What is an 'aficionado'?
9. Which country is known as 'the cockpit of Europe'?
10. What is: (a) a cockabondy; (b) a cockatrice; (c) a cockchafer?

Crime and Punishment

11. What are the titles of the four full-length Sherlock Holmes stories by Conan Doyle?
12. What is a 'yegg'?
13. Who is the present Director of Public Prosecutions?
14. What Dickens character was 'the child of the Marshalsea'?
15. What imaginary operatic criminal, even after

death, 'clearly knew the deference due to a man of pedigree'?

Cup and Lip

16. Who wrote of 'the cups that cheer but not inebriate'?
17. Who was the last British challenger for the America's Cup?
18. What golf event has as its trophy: (a) the Curtis Cup; (b) the Wood Cup; (c) the Halford Hewitt Cup?
19. Who had lips like 'a thread of scarlet'?
20. Who scored the winning goal in the F.A. cup final this year?

Errors and Omissions

21. What are the two principal remedies available to a plaintiff in an action in tort?
22. Who said 'To err is human, to forgive divine'?
23. On what two fundamental points must a person satisfy the Court if he claims that a contract is void because he entered upon it under a mistake?
24. What R. L. Stevenson character had 'a grand memory for forgetting'?
25. What sin did Browning 'impute to each frustrate ghost'?

Fire and Water

26. Who 'warmed both hands before the fire of life'?
27. What, in area, is the largest lake in (a) Asia; (b) North America; (c) Africa?

28. Who 'took water and washed his hands before the multitude'?
29. What is heavy water?
30. What was the rhyming response of the people passing in the street, to Hilaire Belloc's Matilda, every time she shouted 'fire'?

Goods and Chattels

31. What is (a) a jardinière; (b) a teapoy; (c) an étagère?
32. What is chattelism?
33. Who often wondered 'what the vintners buy one half so precious as the goods they sell'?
34. What doleful yet hopeful Gilbertian character was 'a man of propertee'?
35. Who advised Pip to 'get hold of portable property'?

Hand and Glove

36. Who lamented that 'all the perfumes of Arabia will not sweeten this little hand'?
37. What are the hand movements denoted by the terms 'pronation' and 'supination'?
38. Who was asked and by whom: 'Why do you walk through the fields in gloves . . . missing so much and so much'?
39. Who were the five members of the Cabal in the reign of Charles II?
40. Who, on his way to a wedding, was held back by 'a skinny hand'?

Heaven and Earth

41. What is turbary?
42. What, according to Blake, 'puts all Heaven in a rage'?
43. What is the estimated weight of the earth?
44. What three gods divided the universe into the heavens, the sea and the underworld and drew lots for them?
45. What city building exterior bears the inscription 'The earth is the Lord's, and the fulness thereof'?

Man and Superman

46. Who bestrode 'the narrow world like a Colossus'?
47. Who wrote the following novels: (a) *When A Man's Single*; (b) *Of Mice and Men*; (c) *God's Good Man*?
48. Who said 'Man is only a reed, the weakest thing in nature; but he is a thinking reed'?
49. Who played the leading parts in the film called *The Thin Man*?
50. Who said 'If I have seen a little further than others it is because I have stood on the shoulders of giants'?

Odds and Ends

51. What is the meaning in roulette of (a) *rouge et noir*; (b) *pair et impair*; (c) *passe et manque*?
52. What are the odds against throwing a double six with two dice?
53. What is serendipity?
54. What are (a) end-irons; (b) andirons?
55. What are the termini of the Piccadilly underground line?

Pride and Prejudice

56. 'Pride goeth . . . before a fall'. What are the missing words of the quotation and what is the source?
57. What essayist said that he was 'a bundle of prejudices'?
58. Who said to Juliet 'Thank me no thankings nor proud me no prouds'?
59. What was Pride's Purge?
60. Who was advised to clear his mind of cant?

Publicans and Sinners

61. Who asked 'Why eateth your master with publicans and sinners'?
62. What is the derivation of the public-house sign *The Bull and Gate*?
63. Who fought a private war for the possession of the *Potwell Inn*?
64. Who was a man 'more sinned against than sinning'?
65. Who wrote (a) *Poet's Pub*; (b) *An Innkeeper's Diary*; (c) *No Room at the Inn*?

Rates and Taxes

66. What historic Act virtually established the present basis of local rating?
67. By what statute are receipts for salaries and wages exempt from stamp duty?
68. Who said that 'in this world, nothing can be said to be certain, except death and taxes'?
69. What is the rate of estate duty on estates in excess of £1 million?
70. What is the maximum value of certificates of post-war credit an individual may hold?

Royal and Ancient

71. What are the measurements of a royal octavo book?
72. What street in Paris runs from the Place de la Madeleine to the Place de la Concorde?
73. What is the derivation of the word 'ancient'?
74. Where in London is (a) the Royal Academy

of Dramatic Art; (b) the Royal College of Music; (c) the Royal Free Hospital?

75. Who thought it a glorious thing to be 'a right-down regular Royal Queen'?

Sports and Pastimes

76. What sports are associated with the following places (a) Carsebreck; (b) the Hawthorns; (c) Winged Foot?
77. What is a doubleton?
78. What Test Match in 1948 was won off the last possible ball?
79. Who was (a) Jack Broughton; (b) John Roberts; (c) Edward Whymper?
80. Who was the last champion jockey prior to Sir Gordon Richards?

Sweet and Twenty

81. Who said:
'Now of my three score years and ten
Twenty will not come again'?
82. What are the alternative names for (a) sweet amber; (b) sweet bay; (c) sweet gale?
83. Who wrote (a) *Portrait of the Artist as a Young Man*; (b) *Portrait of the Artist as a Young Dog*?
84. Who said:
'Now all the youth of England are on fire
And silken dalliance in the wardrobe lies'?
85. What is the remainder of the quotation which begins 'What's in a name? . . .'?

Time and Tide

86. Who introduced the daylight saving scheme to this country and in what year was it first put into practice?
87. Who wrote (a) *The Time Machine*; (b) *An*

Experiment with Time; (c) *Time and the Conways*?

88. What was the peculiarity of the god Janus after which January is named?
89. What is the outermost planet of the solar system?
90. What event did *The Riddle of the Sands*, by Erskine Childers, published in 1903, foretell?

Town and Country

91. What Scottish town has an unsurpassed reputation for 'honest men and bonny lasses'?
92. Who was 'Ernest in town and Jack in the country'?
93. What is the county town of (a) Rutland; (b) Fife; (c) Merioneth?
94. Who wrote *The Astonishing History of Troy Town*?
95. Who played the name part in the film *Mr Deeds Goes to Town*?

Travelling and Entertaining

96. Who deemed that 'to travel hopefully is a better thing than to arrive'?
97. What is the London train terminus for (a) Basingstoke; (b) Beaconsfield; (c) Bedford?
98. What travel romance begins: 'I was born in the year 1632, in the city of York, of a good family, though not of that country, my father being a foreigner of Bremen, who settled first at Hull'?
99. Who wrote of a traveller from New Zealand standing on a broken arch of London Bridge and sketching the ruins of St Pauls?
100. Who said: 'I shall dine late; but the dining-room will be well lighted, the guests few and select'?

GILBERT AND SULLIVAN DOUBLE ACROSTIC

by HUGH TIERNEY, C.A.

Uprights

No minstrel hel A princeling in disguise!
Half man, half fairy here before our eyes!

Lights

- (1) A flower known to Grosvenor, I declare.
He eyed his mirror and beheld it there.
- (2) The adage has it, 'Old as hills', This earl
Despite his lineage, lost both hill and girl.
- (3) His lordship thrice this adverb utilized
When he the wrong'd one's beauty emphasized.

- (4) Both Rose and Wells declared it much amiss
To aid oneself, when eating peas, with this.
- (5) The mob did this, to Katisha's dismay.
You'd slake your thirst? Tea's served outside today.
- (6) His offices a lengthy list would make:
A bribe and many more he'd undertake.
- (7) This classic poet thrice is named, I trow.
The style in Iolanthe you need now.
- (8) The last the Don provides: it's plain
'Tis what a party leader might maintain.
- The solution appears on another page.*

WEEKLY NOTES

The Landlord and Tenant Bill

The Landlord and Tenant Bill,¹ which is to give effect to the Government's proposals on leasehold reform, has now been published. The proposals were contained in a White Paper (Cmd. 8713) which we reviewed in our issue of February 7th, 1953. The Bill contains sixty-six clauses and nine schedules and covers sixty-five pages. Part I deals with security of tenure for residential tenants who are outside the Rent Restriction Acts. In general it applies to tenancies of twenty-one years or more at a rent less than two-thirds of the rateable value, where the lowness of the rent takes the case out of the Rent Restriction Acts. On the termination of the lease, the tenant will be entitled to retain possession as a statutory tenant under those Acts unless the landlord can satisfy the County Court that he is entitled to possession on certain grounds. The terms on which the tenant retains possession are to be settled by the parties or, if they cannot agree, by the County Court. The landlord can carry out 'initial repairs' and recover the cost from the tenant to the extent to which the repairs are a consequence of the tenant's own default. The rent is to be a reasonable rent, after taking the repairs, if any, into account. A sub-tenant occupying residential premises is, subject to certain exceptions, to have the benefit of the Rent Restriction Acts on the coming to an end of a superior long tenancy at a low rent.

Part II provides security of tenure for tenants occupying business premises. The tenancies subject to the Bill are to be terminable only by landlord or tenant giving notice in accordance with the Bill. The tenant is entitled to apply to the County Court (the High Court if the rateable value exceeds £500) for a new tenancy. Where the landlord successfully opposes the application the tenant may be granted compensation in certain circumstances.

Part III of the Bill makes a number of minor amendments to the Landlord and Tenant Act, 1927, in relation to compensation for improvements in business premises.

Part IV is a hotchpotch of miscellaneous provisions relating to the law of landlord and tenant. The Act is to come into operation next October. We hope to discuss the provisions of the Bill in more detail in a subsequent issue.

The Charitable Trusts (Validation) Bill

The text of the Charitable Trusts (Validation) Bill² has now been published. Its object is to validate certain trusts contained in instruments which took effect before December 16th, 1952, when the Nathan report

was published. We reviewed this report in our issue of January 3rd, 1953, and we reported the intentions of the Government, now embodied in the Bill, in our issue of August 1st. The Bill comes to the aid of charitable trusts which have been found to be invalid because they include in their objects purposes which are not strictly charitable. Clause 1 provides that these trusts are to be treated as charitable trusts and as having at all times been so, thus validating past invalid applications of the trust property. For the future, the non-charitable objects are not to be followed. By clause 2 it is provided that the Bill shall not apply to trusts which have been treated as invalid before December 16th, 1952. Persons who would have a claim to property subject to a trust if the trust were held invalid are dealt with in clause 3. In general they may bring a claim within one year after the passing of the Act, but they must show that their right accrued within six years before December 16th, 1952. The Act is not to apply for the purpose of legal proceedings begun before that date, nor is it to increase liability to income-tax for any period before its commencement nor entitle any person to repayment of tax borne before that commencement.

Down with Taxes

The Association of British Chambers of Commerce has sent a letter to the Chancellor of the Exchequer about the Budget for 1954-55. The Association expresses the opinion that industry is ready for a repetition of the kind of stimulus which was given in the last Budget, and that tax reductions can be achieved by increased yield of existing taxes and by economy in administration, not to mention a raid on the National Land Fund. The letter accordingly calls for a reduction in income-tax rates and in purchase tax, with a flat rate for profits tax pending its repeal 'as soon as funds permit'. A reduction of sixpence a gallon in the petrol tax is also asked for. Other points made by the letter are the desirability of accelerating repayment of post-war credit, the need to recognize the changed value of money in the provisions for wear and tear on industrial equipment, the question of the provision of retirement benefits by self-employed persons and directors of controlled companies, and the desirability of exempting overseas income and removing the power of the Treasury to veto the emigration of a company.

The Association has also published a booklet consisting of a report by its Finance and Taxation Committee on the purchase tax, and the recommendation of the Executive Council thereon. The Executive Council concludes that the tax in its present form should be withdrawn as soon as possible. In the meantime it should be reduced by instalments of material size, instead of by narrowing its range, and there should be a review of the present classifications.

¹ Bill 48. H.M.S.O. 2s. net.

² Bill 18 (H.L.) H.M.S.O. 4d net.

Services for Export

It must always remain that the most difficult aspects of exporting are obtaining the business and keeping the goodwill of the customer until and after delivery has been made. In spite of this, however, there is still a good deal which can be done in the way of disseminating information about the export facilities which exist in this country.

Over last week-end the Board of Trade circularized 50,000 manufacturers about the Government services which exist to assist the exporter. These services cover a world-wide information service from British officials on the spot and the Export Credits Guarantee Department facilities. This last service has done a great deal of good work in shielding the British exporter from some of the worst consequences of currency chaos – its activities in connection with the recent Brazilian exchange difficulties are by now well known. It has now been revealed that the department did good work as well when the Australian import cuts were suddenly imposed.

There are two ways in which official activity of this kind could provide invaluable assistance to the exporter. The first of these is in providing a flow of information from various quarters throughout the world on a scale which is quite beyond the means of any non-official organization and a similar comprehensiveness and scale of resources makes it peculiarly suited to offer insurance cover. In these respects the department concerned offers very good service. The second way in which it can help is to bring to its activities some flavour of personal service – an element which it is exceedingly difficult for a Government department to introduce. Informality in place of forms and formality is always a goal which it is worth setting for a department which deals with industry on questions of information and service.

Trade Gap Narrows

The trade results for November will set the economists rethinking about one of their most widely-held theories of the state of the economy this autumn. It has been thought that the difficulty in selling exports has been so great that goods destined originally for the export market have been finding themselves back in the home market where they have helped to mop up purchasing power which might otherwise have generated a certain amount of inflationary potential. The November export and import figures do not give the lie to this in a direct way but they suggest that the truth of the matter may be rather more complicated than had at one time been thought.

The trade gap has in fact been shrinking in quite a satisfactory manner in the second half of this year. By October it was down to £42.9 million and last month it fell further to £23.5 million. It has been noticeable that it has been those sterling countries which cut back their imports last year to defend their exchange reserves and those countries outside the sterling area which had until recently been short of

sterling, which have been taking a larger amount of British exports. That is to say, recent currency relaxations within the sterling area and the improved supply of sterling outside it (which has been made possible by these non-sterling countries borrowing £s from such sources as the International Monetary Fund) have together made higher purchases in sterling possible.

Optimism or pessimism about exports is generated by the particular run of external trade figures which are analysed. If the last few months only are examined there is some ground for optimism about the resilience of British exports. If the year 1953 is taken (or the first eleven months of it), the picture is more gloomy, for exports are then seen to be just below those of the year before. Which viewpoint is right depends on the trend from now on. If the improvement is maintained then the optimists will be justified; if not, the recent better figures will turn out to have been little more than a once-only windfall gain.

Another Estate Duty Memorandum

The latest memorandum (at the time of going to press) to be submitted to the Inland Revenue on the anomalies of estate duty law and practice, is by the Institute of Taxation. It confines itself to main principles of valuation and major anomalies. In general the points made by the memorandum are similar to those made by other professional bodies. It is, however, interesting to observe that the Institute has not found any case where negative goodwill has been allowed as a deduction in a valuation under the Finance Act, 1940, Section 55, notwithstanding the statement made in Parliament by the Economic Secretary to the Treasury on June 23rd last. The Institute argues that in any case the principle ought to be embodied in a statute and not left to a practice 'of which it can be said that large numbers of experienced practitioners have never seen an example'. The memorandum also criticizes the present practice in relation to agricultural land held by a partnership, as well as in relation to such land held by a company to whose shares Section 55 is applied. The present practice of the Estate Duty Office in relation to partnership land is set out in the memorandum. Whatever its legal basis, it is certainly lacking in logic as far as the layman is concerned.

The Institute recommends that the taxpayer should be able to postpone payment of duty under Section 55 for up to five years until an arm's-length sale of shares takes place; that Sections 46 to 54 of the Finance Act, 1940, be re-cast and rendered inoperative in relation to events occurring five years before the death; and that a special tribunal of fact and valuation be set up for estate duty purposes, and be composed of one official representative, one professional member, and one representative of industry. The submissions to such a tribunal would in the first place be in writing. Other recommendations made by the Institute are similar to those made by other bodies and reported by us.

FORD, RHODES, WILLIAMS & CO,
Chartered Accountants.

COURT LINE LIMITED
Profit and Loss Account for the year ended June 30th, 1953

1952	£		£	£
		Income		
		Profit on Voyages completed at June 30th, 1953, after charging		283,302
708,063		Depreciation		41,487
25,852		Interest (Gross)		8,750
		Interest on Government Securities (Gross)		31,633
		Miscellaneous Items relating to previous years		291
16,119		Transfer Fees		365,463
463				
750,497				
		Expenditure		
	6,634	Sundry Disbursements	7,730	
		Expenses in connection with increase of Capital	5,072	
		Directors' Fees	1,200	
	1,200	Audit Fee	500	
500				14,502
8,334				350,961
742,163				
		Provision for Taxation		
		Income-tax deducted from Investment Income	3,937	
	321,000	Income-tax (1954-55)	125,000	
	109,000	Profits Tax (1953)	69,813	
	20,000	Excess Profits Levy (1953)	—	
				198,750
450,000				
		Less Provision in earlier years no longer required	45,000	
				153,750
292,163				
		Net Profit		197,211
		Add Balance brought forward from previous year		145,159
106,020				342,370
398,183				
		Appropriations		
	45,000	General Reserve	—	
115,000		Contingency and Survey Reserve	35,000	
		Dividend		
		Interim Dividend of 6d per Share, less Income-tax, paid June 17th, 1953	129,937	
		Proposed Final Dividend of 1½d per Share, less Income-tax	32,484	
253,024	93,024			197,421
£145,159		Balance carried to Balance Sheet		£144,949

fire that already existed. In addition to the take-over talk, the market began to discount something big in the way of a final dividend. It is against normal experience for a company to declare a bigger interim than final payment. From 4s 6d at the time of the interim declaration, the market went on to its 8s peak.

It is easy to be wise after the event and so easy to say that the board's purpose behind the inflated interim should have been explained at the time, which was just before the Coronation. But this view is considerably strengthened by their subsequent action in recommending a final distribution of only 12½ per cent, admittedly making substantially more for the year but against normal experience.

The board's purpose seems more confused by two further statements by the chairman. One is that after last year's effort to produce prompt accounts, an experiment which 'proved very costly in the disorganization it caused', they decided on the interim payment to save shareholders from suffering hardship through waiting, as in earlier years, till November or December for a dividend. The other is that they 'decided to mark this eventful year by the payment of

an interim dividend at the time of Her Majesty's Coronation'.

It seems to be a case of trying to kill three birds with one interim and getting both barrels jammed.

Tax Argument

Mr R. A. Chadwick, chairman of J. Hepworth & Son Ltd, the tailors, tells shareholders this year of the outcome of a long argument with the Inland Revenue over the method of assessment following the split of the business into two companies in 1948. It was a question of how much should be assessable on the parent company and how much on the subsidiary involving technicalities about Schedules 'A' and 'D'. It was an important matter because the manner of the settlement would set the basis for future assessments.

These questions could not be finally settled until early this year. Meantime, both companies had made tax reserves against the day of reckoning. When the tax decision was received, it was found that the parent was over-reserved and the trading company under-reserved. The necessary adjustments have been made in the present accounts. There is a swollen tax charge falling on the trading company to make good the under-reserve and in the parent's tax account there is a £50,000 surplus not required which has been transferred to general reserve.

Wool Price Fears

Discussing the trade outlook, Mr Chadwick is evidently worried about the future course of wool prices and the effect on cloth prices. During the current year, he says, the price of 64 worsted tops has fortunately remained comparatively stable varying from about 148d to 168d per lb. But it is still a very high price, he points out, compared with the pre-war price of about 28d per lb. Are 64 tops to settle down at about 150d and remain henceforward at five times the pre-war figure? he asks. Or will there be a fall and if so, when will it come? Delivery dates, he adds, are still as long as ever. Cloth bought today on the basis of 155d per lb will be made into suits selling in the spring of 1955.

So long as distant forward buying is necessary to ensure supplies for our labour force, Mr Chadwick declares, it is obvious that a sharp fall in cloth prices is bound to hit the wholesale clothing trade hard. No one can tell when or how the fall will come and obviously the only wise thing to do will be to husband resources.

The industry, it may be noted, has already had a very severe experience in consequence of the rise in the price of wool to 248d per lb in 1951 and the subsequent fall.

Money Market

Treasury bill applications totalled £368,480,000 on December 11th and at a maintained bid the market obtained 58 per cent of requirements. The average rate was £2 1s 11.98d per cent. This week's offer is £250 million.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

The Accountants' Christian Fellowship

SIR, - The first meeting of the Fellowship, as announced in your columns, took place recently in London, and a most encouraging start was made with about one hundred accountants turning up in support; the meeting had throughout that particular quality which can only be called 'inspiring'.

Those present at the meeting elected the following persons as officers and committee members:

Chairman: Mr W. R. Booth, A.C.A., A.S.A.A.

Hon. Treasurer: Mr J. Waldron, A.C.A.

Hon. Secretary: Mr Bruce Jones, C.A.

Committee: Messrs R. J. Carter, B.COM., F.C.A.; D. J. Ginnings, F.C.A., F.S.A.A.; I. I. Williamson, A.C.A.; J. C. Steare, A.C.A.; A. Baird-Woolston (student member of the committee).

In view of the fact that the annual service arranged by the Council of the Institute will take place on Wednesday, January 6th, 1954, the committee feel that this would be an appropriate day for all those interested to join in a corporate service of Holy Communion at St Mary Woolnoth (junction of King William Street and Lombard Street), at 6 p.m. on the same evening.

The committee hopes to announce on this occasion the time and place of future regular prayer meetings.

Finally, sir, I would like to express the thanks of the committee for the help you have given us through your correspondence columns.

Yours faithfully,

BRUCE JONES, *Hon. Secretary,*

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP.
Wembley Park, Middlesex.

Replacement Cost: A Student's Views

SIR, - There has recently been much discussion and controversy concerning the 'replacement cost' theory and in putting forward my views I, as befits a student, am well aware that I have much to learn on this and other subjects. However, I feel that it may be of interest to the elders of the profession to ascertain how the ideas of at least one student are developing on the subject and the extent to which the student requires correction and guidance.

The controversy, as I understand it in its simplest form, is whether depreciation should be based on the historical (actual) price of an asset or upon its replacement (present) price, for the purpose of ascertaining profit. The advocates of the 'replacement cost' theory say (I realize that I am simplifying this) that unless depreciation is calculated on the basis of current values, the profits will be over-stated, since no provision would have been made for the increased cost of replacement.

If in stating the problem as I see it, I have appalled some, I fear that they will be even more appalled

when I venture to express my own opinion. However, I would beg them to be tolerant of inexperience blundering in the darkness of ignorance.

When I state that I really see no genuine conflict of fundamentals, it might seem flippant and even impertinent, but that is in fact my view, though my attitude is certainly not as described above. I think that two separate matters have been confused, one being the ascertainment of profit, the other the provision of capital.

Perhaps this might best be illustrated with a simple example: A person buys a machine which has a life of one year at a cost of £100 (that is, his capital outlay is £100). With this he is able to produce goods during the year upon which he makes a profit of £500. Therefore on the historical basis - £500 less exhaustion of capital outlay, £100, gives a profit of £400. If, however, the cost of replacing the machine has risen to £150, I understand the advocates of the 'replacement theory' to say that the profit is only £350, being £500 less the amount required for future capital outlay. I maintain that the future capital outlay is quite irrelevant to the ascertainment of profit - though not of course to its subsequent use. Indeed, in the example given, if the person decided not to replace his machine, but to retire and spend all his profit, I fail to see how it can be said that he has not made a profit of £400.

Undoubtedly, if prices have risen, he will have suffered a loss in that his purchasing power has depreciated over the year, but in that he will be in common with all other members of the community. The fact that if he wished to purchase another machine he would have to make a larger capital outlay would indicate that in a period of rising prices he - again as with everybody else - requires a larger amount merely in order to do that which he has done previously with a smaller amount.

Therefore, it seems to me that what the 'replacement theory' implies is that investors of capital should be 'insulated' from rising prices. It is quite permissible to seek such preferential treatment, but I fail to see how it can be said to raise fundamental issues on accountancy principles.

Yours faithfully,
London, NW3.

BRIAN ARNOLD.

Football Pool: Accounting System

SIR, - A client is running a small football pool in Lagos, based on British matches, with the various pools laid out in very similar manner to that followed in a normal English coupon. If any of your readers have experience of such matters and could suggest a simple accounting system which could expand as the pool grew, I should be very grateful. Simplicity would be a prime essential as the local labour available is not of high quality.

Yours faithfully,
Lagos, Nigeria.

J. E. SARGENT, A.C.A.

ANSWERS TO QUESTIONS FOR CHRISTMAS

The questions appear elsewhere in this issue

1. Matthew Arnold.
2. 9, 14, 19, 22, 38, 38A, 96, 297 (night service).
3. Either from the German word 'traam' or a corruption of the surname of George Outram, who first introduced rails to this country in 1776, for colliery use.
4. Hippopotamus. (Lewis Carroll's *Sylvie and Bruno*).
5. E. M. Forster.
6. Jack Point was to instruct him in the art of a jester (Gilbert and Sullivan's *Yeomen of the Guard*).
7. Socrates.
8. One who appreciates the finer points of bull-fighting and is an enthusiast.
9. Belgium.
10. (a) A kind of fishing-fly; (b) a mythological monster, able to kill men with a glance; (c) a kind of flying beetle.
11. *The Hound of the Baskervilles*, *The Sign of Four*, *The Valley of Fear* and *A Study in Scarlet*.
12. American slang for a travelling burglar or safe-breaker.
13. Sir Theobald Mathew, K.B.E., M.C.
14. Little Dorrit.
15. The one 'executed' by Ko-Ko (Gilbert and Sullivan's *The Mikado*).
16. Cowper (*The Winter Evening*).
17. T. O. M. Sopwith, with *Endeavour II*, in 1937.
18. (a) The match between the ladies of Great Britain and America; (b) the annual match between English chartered accountants and Scottish chartered accountants in London; (c) the public schools match tournament at Deal.
19. The Rose of Sharon, as described by Solomon.
20. Perry, of Blackpool, from a pass by Stanley Matthews.
21. Damages and injunctions.
22. Pope (*Essay on Criticism*).
23. (1) That the mistake was a mistake of fact and not a mistake of law. (2) That the mistake was basic or essential and that it was in relation to something going to the very root of the contract.
24. Alan Breck in *Kidnapped*.
25. 'The unlit lamp and the ungirt loin' (*The Statue and the Bust*).
26. Walter Savage Landor (*Finis*).
27. (a) Caspian Sea, (170,000 sq m.); (b) Lake Superior (31,820 sq m.); (c) Victoria Nyanza (26,200 sq m.).
28. Pontius Pilate.
29. Water in which hydrogen is replaced by deuterium, the heavy isotope of hydrogen with an atomic weight of 2.
30. 'Little liar.'
31. (a) An ornamental pot or stand for displaying plants or flowers; (b) a small three- or four-legged table from which tea may be served; (c) a piece of furniture with tiers of shelves or stages for holding ornaments.
32. The system of holding human beings as chattels.
33. Omar Khayyam.
34. Archibald Grosvenor (Gilbert and Sullivan's *Patience*).
35. Mr Wemmick (Dickens' *Great Expectations*).
36. Lady Macbeth.
37. 'Pronation' denotes the turning of the palms downwards and 'Supination' the turning of the palms upwards as for receiving objects.
38. *The Fat Lady Seen from a Train*, by Frances Cornford.
39. The ministers Clifford, Ashley, Buckingham, Arlington and Lauderdale.
40. The Wedding Guest (Coleridge's *The Ancient Mariner*).
41. Land where turf or peat may be dug for fuel.
42. 'A Robin Redbreast in a Cage' (*Auguries of Innocence*).
43. 6,000,000,000,000,000,000,000 tons.
44. Zeus (who took the heavens), Poseidon (the sea) and Hades (the underworld).
45. The Royal Exchange.
46. Julius Caesar, according to Shakespeare's Cassius.
47. (a) J. M. Barrie; (b) John Steinbeck; (c) Marie Corelli.
48. Pascal.
49. William Powell and Myrna Loy.
50. Sir Isaac Newton.
51. The terms denote the three varieties of independent 'even' chances on the board: (a) that the colour red or black will come up; (b) that the winning number will be even or odd; and (c) that the winning number will be in the group 1 to 18 or 19 to 36.
52. 35 to 1.
53. The faculty of making happy and unexpected discoveries by chance.
54. (a) Iron cheeks or plates used in cooking stoves to enlarge the grate; (b) horizontal bars with pillar supports used on a hearth for log fires.
55. Cockfosters and Uxbridge, and Hounslow West.
56. '... before destruction, and an haughty spirit...' (Proverbs xvi).
57. Charles Lamb.
58. Capulet, her father.
59. The action taken by Thomas Pride in 1648, in preventing nearly a hundred members taking their seats in Parliament. The ruse was designed to stop Parliament from coming to an arrangement with Charles I.
60. Boswell, by Dr Johnson.
61. The Pharisees (Matthew ix, 11).
62. It is a corruption of 'Boulogne Gate' and dates back to the French wars.

63. Mr Polly and Uncle Jim (*The History of Mr Polly*, by H. G. Wells).
64. Shakespeare's King Lear.
65. (a) Eric Linklater; (b) John Fothergill; (c) Joan Temple.
66. The Poor Relief Act, of 1601—the Act of Elizabeth.
67. Finance Act, 1924—Section 36.
68. Benjamin Franklin.
69. 80 per cent.
70. $5 \times £65 = £325$, plus any credits inherited.
71. 10 in $\times$ 6 $\frac{1}{2}$ in.
72. Rue Royale.
73. From the Latin *ante-annum*, a former year; also a corruption of 'ensign'.
74. (a) Gower Street; (b) Prince Consort Road (behind the Albert Hall); (c) Gray's Inn Road.
75. Gianetta and Tessa (Gilbert and Sullivan's *The Gondoliers*).
76. (a) Curling; (b) Association football (the ground of West Bromwich Albion); (c) Golf (a championship course in America).
77. A hand containing two cards only of one suit.
78. England (who won) v. South Africa, at Durban.
79. (a) The first man to think of using gloves for boxing; (b) a champion billiards player; (c) mountaineer and author of *Scrambles Amongst the Alps*.
80. H. Wragg, in 1941.
81. A. E. Housman, in *A Shropshire Lad*.
82. (a) St John's Wort; (b) Laurel; (c) Bog Myrtle.
83. (a) James Joyce; (b) Dylan Thomas.
84. The chorus in Shakespeare's *Henry V*.
85. '... that which we call a rose,
By any other name would smell as sweet'—
Shakespeare's *Romeo and Juliet*.
86. William Willett. In 1916.
87. (a) H. G. Wells; (b) J. W. Dunne; (c) J. B. Priestley.
88. He had two heads.
89. Pluto, about 3,666 million miles from the sun.
90. The 1914–18 war.
91. Ayr, according to Robert Burns.
92. John Worthing, J.P., in Oscar Wilde's *The Importance of Being Earnest*.
93. (a) Oakham; (b) Cupar; (c) Dolgelly.
94. Sir Arthur Quiller-Couch.
95. Gary Cooper.
96. R. L. Stevenson, in *Virginibus Puerisque*.
97. (a) Waterloo; (b) Marylebone; (c) St Pancras.
98. *Robinson Crusoe*, by Daniel Defoe.
99. Macaulay.
100. Walter Savage Landor.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON FORTIETH ANNUAL DINNER

The Chartered Accountant Students' Society of London held their fortieth annual dinner at *Grosvenor House*, Park Lane, London, on Wednesday, December 9th. Sir Harold Gillett, M.C., F.C.A., presided, and received the members and guests who numbered nearly 900.

Among those present were: The Rt. Hon. Viscount Waverley, P.C., G.C.B., G.C.S.I., G.C.I.E., LL.D., F.R.S., Chairman, Port of London Authority; The Rt. Hon. Lord Luke, T.D., D.L., J.P., Chairman, London Chamber of Commerce; The Rt. Hon. Sir Hartley Shawcross, P.C., Q.C., M.P., Chairman, General Council of the Bar; Mr James Blakey, F.C.A., President, The Institute of Chartered Accountants in England and Wales; Mr C. Percy Barrowcliff, F.S.A.A., President, Society of Incorporated Accountants and Auditors; The Rt. Hon. Lord Latham, J.P., F.A.C.C.A., President, Association of Certified and Corporate Accountants; Mr Thomas Lister, C.A., Chairman, Association of Scottish Chartered Accountants in London, and

Mr H. Garton Ash, O.B.E., M.C., F.C.A. (*Past President, Institute of Chartered Accountants*); Sir Harold Barton, F.C.A. (*a Vice-President of the Students' Society*); Professor W. T. Baxter, B.COM., C.A. (*Professor of Accounting, University of London*); Mrs Douglas Bolton, J.P. (*Chairman, London County Council*); The Rt. Hon. Sir Edward Bridges, G.C.B., G.C.V.O., M.C., P.C. (*Permanent Secretary of the Treasury*); Messrs J. M. Clarke (*Senior Official Receiver in Companies Liquidation*); Leslie Cork.

Mr William Charles Crocker, M.C. (*President, The Law Society*); Colonel J. D. Crosthwaite, D.S.C., M.C.,

A.C.A. (*Member of Council of the Stock Exchange*); Messrs Derek du Pré (*Editor, 'The Accountant'*); A. H. Ensor, (*President, Institute of Bankers*); Colonel H. J. S. French, O.B.E., B.C.L. (*London and Yorkshire Trust Ltd*); Mr W. F. Gardner, C.B.E., F.I.A. (*President, Institute of Actuaries*).

Sir John Gibson Graham, M.C. (*Chairman, Baltic Exchange*); Messrs H. E. Gorick, C.B.E., F.C.I.S. (*President, Chartered Institute of Secretaries*); L. H. Hall, F.S.A.A., (*Accountant Auditor, Corporation of London*); M. G. J. Harvey, A.C.A. (*Accountant and Appointments Officer, Institute of Chartered Accountants*); E. P. Hatchett, F.I.A. (*Deputy Controller, Prudential Assurance Co*); D. V. House, F.C.A. (*Vice-President, Institute of Chartered Accountants*); Air Chief Marshal Sir John Whitworth Jones, K.C.B., C.B.E. (*Air Member for Supplies and Organization*); Sir Russell Kettle, F.C.A. (*a Vice-President of the Students' Society*); Messrs C. H. S. Loveday, A.C.A. (*an Assistant Secretary, Institute of Chartered Accountants*); Alan S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants*); Brian Manning, D.L., J.P., F.C.A. (*a Vice-President of the Students' Society*); T. O. Maycock (*Past Prime Warden, Honourable Company of Basketmakers*); John Myers, F.C.A. (*a Vice-President of the Students' Society*).

Sir Frank Newsam, K.C.B., K.B.E., C.V.O., M.C. (*Permanent Under-Secretary, Home Office*); Mr G. Godfrey Phillips, C.B.E.; Vice-Admiral S. M. Raw, C.B., C.B.E. (*Fourth Sea Lord*); General Sir Ouvry Roberts, G.C.B., K.B.E., D.S.O. (*Quartermaster-General to the Forces*); Mr H. W. Thomson (*Librarian, Institute of Chartered Accountants*); Sir Frank Newton Tribe, K.C.B., K.B.E. (*Comptroller and Auditor-General*).

Messrs C. F. Trustam, M.A., F.I.A., F.C.I.I. (*President, Chartered Insurance Institute*); A. W. Tuke. (*Chairman,*

Barclays Bank); L. J. Williams (*Chief General Manager, National Provincial Bank*); Sir Bruce Wycherley, M.C., F.C.I.S. (*Managing Director, Abbey National Building Society*).

Advantage of a Professional Qualification

Proposing the toast of 'The Students' Society', Lord Waverley spoke of his interest in the training for the profession which was largely due to his having attended a school in Scotland which had been founded by a professional accountant. A deed drawn up by this gentleman embraced the phrase *res rationaria et arithmetica*, and every pupil had had to undergo a course of instruction in accountancy. 'I myself', said Lord Waverley, 'only achieved a statutory minimum of instruction - I did not get on to the more recondite processes of journalizing a ledger - and of what use was that to me?' (Laughter.)

He went on:

'Unlike you young people, I wandered off into various byways and became a sort of jack of all trades and I have lived to envy those who possess a professional qualification. I have seen what an advantage it is to be able to wrap one's profession around one.'

Lord Waverley said that the halls of fame were always full - some went in by the door marked 'push' and some by the door marked 'pull'; he fervently hoped that young accountants would always take the former route.

In more serious vein, Lord Waverley emphasized the great part to be played in the world of today by accountants. They had to be accurate - to present figures in an intelligent, unambiguous form so that they represented facts, and to know and understand exactly what people would like to see represented.

The Chairman of the Committee

In his reply to the toast, Mr G. F. Bacon, B.Sc.(ECON.), Chairman of the Committee, referring to the work of the Society, said that in recent years it had been felt that the Society was not getting the active support of its members. It must be appreciated, he said, that one of the chief problems in this respect was that of size; owing to its having such a large membership it was difficult to maintain that personal contact which smaller student societies were able to build up. Another problem was that of time. Nevertheless, he was happy to say that a much more lively interest had been shown in the autumn session. (Applause.)

He continued:

'Young people today are criticized occasionally for being afraid of work - it is said that they are lazy, and that this will endanger their future. There may be good grounds for this, but it seems to me that a danger just as great lies in the constant emphasis on the passing of examinations. I have met several students who seem to believe that the passing of the Final examination automatically means that they can be launched on the world as good accountants; surely, in training for the profession - apart from passing examinations - it is just as important to have undergone a high general education.'

Mr Bacon concluded by reminding the students present of the fact that they were of the same generation as Her Majesty the Queen, and of the probability of this second Elizabethan reign proving a decisive factor in English history. 'It rests with us', he said, 'but we must ensure that material advance is not the sole yard-stick by which progress is measured.' (Applause.)

The toast of 'The Visitors' was proposed by the President, who paid a high tribute to the many distinguished guests who had found time to attend the dinner. 'They represent the British way of living', he said.

Mesmeric Effect of Figures

In his reply, Lord Luke said that he had not had any training in accountancy. He had learnt, however, that figures put before him were sometimes in good shape, but at other times they had to be sent back to be put into better shape. Everyone at some time or other had to study figures - whether they be Stock Exchange figures, export, trade, balance sheets or personal accounts. One had to *do* something about such figures - if one just sat and looked at them they were inclined to have a mesmeric effect.

Three Loyalties

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Sir Hartley Shawcross said that in these highly competitive days - these days of controls - there were many opportunities to depart from the strict standards of commercial honesty which had been hitherto maintained in business life; once one had strayed in that direction, in the end all was corrupted. In the profession of accountancy, as in law, there were three loyalties - loyalty to a client, to use such skill as one possessed in his interest; loyalty to the profession, to maintain the great and honourable standards upon which it had been maintained; and loyalty to the country, making sure that professional knowledge and responsibilities were used only for the good of the country.

'There are those' he concluded, 'who juggle about with law, and there are those who would like to juggle with accounts. In these practices your profession stands firm, and it is important that the country should realize that you protect it from these evils which in the end would corrupt commercial life.' (Applause.)

Here Sir Hartley quoted from a speech made by the late Lord Chesterfield:

'If ever you should fill a great station . . . take care above all things to keep your hands clean and pure from the infamous vice of corruption, a vice so infamous that it degrades even the other vices that may accompany it. Accept no present whatever; let your character in that respect be transparent and without the least speck, for as avarice is the vilest and dirtiest vice in private, corruption is so in public life. I call corruption the taking of a sixpence more than the just and known salary of your employment, under any pretence whatsoever . . .'

In his response, Mr Blakey offered the students sound advice, stressing the need for integrity, loyalty and hard work. He concluded by wishing them success, not only in their examinations, but in their future careers also.

The toast of 'The President of the Society' was proposed by Lord Latham, who paid a warm tribute to Sir Harold Gillett, outlining his many activities, despite which he still found time to take a very great interest in the Students' Society.

In his reply, the President thanked the Secretary of the Society, Mr R. J. Carter, B.COM., F.C.A., for the enormous amount of energy he applied to the Society, and for the hard work he had done to make the dinner, with its record attendance, such a success.

THE NOTTINGHAM SOCIETY OF CHARTERED ACCOUNTANTS DINNER AT THE UNIVERSITY

The annual dinner of the Nottingham Society of Chartered Accountants was held at Nottingham University on Friday, December 11th, and was attended by over 260 members and guests who were received by the President of the Society, Mr John S. F. Hill, F.C.A., and Mr J. Blakey, F.C.A., President of The Institute of Chartered Accountants in England and Wales.

Among those present were Councillor W. J. Cox, Sheriff of Nottingham; Mr T. J. Owen, Town Clerk of Nottingham; the Rt. Rev. Dr F. R. Barry, D.D., D.S.O., Bishop of Southwell, and

Messrs J. G. S. Abbott (*H.M. Senior Inspector of Taxes*); L. R. Allen, D.S.O., O.B.E. (*Vice-President, Nottingham Chamber of Commerce*); R. G. Beard, F.C.A. (*President, Sheffield and District Society of Chartered Accountants*); W. A. Boot, M.C. (*President, Nottingham Incorporated Law Society*); J. Boydell (*City Treasurer of Nottingham*); C. G. Campbell (*President, Nottingham Institute of Bankers*).

Messrs W. G. Densem, F.C.A. (*President, London and District Society of Chartered Accountants*); R. B. Dixon, F.C.A. (*President, Birmingham and District Society of Chartered Accountants*); Derek du Pré (*Editor, 'The Accountant'*); C. M. Foxon, F.S.A.A. (*Hon. Sec., Incorporated Accountants District Society of Nottingham, Derby and Lincoln*); H. L. Hall (*President, Nottingham Insurance Institute*); N. B. Hart, O.B.E., T.D., D.L., M.A., LL.B., F.C.A. (*President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants*).

Messrs A. S. MacIver, M.C., B.A. (*Secretary, Institute of Chartered Accountants*); H. Pickbourne, B.A. (*Registrar, Nottingham University*); Martin Redmayne, D.S.O., J.P., M.P.; P. W. Skinner, F.S.A.A. (*President, Incorporated Accountants District Society of Nottingham, Derby and Lincoln*); E. C. Stimpson (*Official Receiver*); Dr H. A. Summers (*President, Nottingham Medico-Chirurgical Society*).

Marry an Accountants' Daughter

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Mr Owen, who said that he had some slight link with the profession because his brother was a chartered accountant.

He added, amid laughter, that at one time an articulated clerk who wanted to get ahead was advised to marry an attorney's daughter, but today the ambitious solicitor's clerk should marry an accountant's daughter 'and with that advantage seek undoubted success in life'.

He spoke of the formation 'in more or less modern times' of the various professional bodies 'mainly to establish the very highest standards of professional integrity'.

This country, he held, owed a very great debt of gratitude to the professional men. 'We live in a world today when it is not only necessary but virtually essential to establish standards of integrity, decency and service', he said.

Mr Owen commented that the chartered accountant in England occupied the place in industry that was taken by the lawyer in the United States of America.

'We know that industry in America is the most flourishing industry in the world', he said. 'This is a fact which is established beyond all doubt. . . . We know that several of the most flourishing of the larger businesses in this city have chartered accountants as their chairmen and that

others have chartered accountants as members of their boards. We know industry is absolutely vital, a part of the very life-blood of this country, and we know the part the accountants have played.'

Estate Duty

In the course of his reply, Mr Blakey said:

'In recent years we have heard a good deal about tax avoidance and I would like to admit, quite openly, that estate duty is a tax which everyone present tonight has so far avoided. (Laughter.) The avoidance machinery is somewhat complex and not entirely understood even by our doctors who, of course, bear a large part in the conspiracy. (Renewed laughter.)

'Seriously, however, I do want to refer to the memorandum which the Council submitted last month to the Board of Inland Revenue for the assistance of the Chancellor of the Exchequer in his review of anomalies arising under estate duty law: Such a review was long overdue and I am sure we all believe that important changes should be made both in the law and in the practice of the Estate Duty Office. (Hear, hear.)

Valuation of an Estate

'The Council's memorandum is fairly long but it deals with three main points, all of which have been the subject of previous representations by the Council during the past ten years.

'The first main point is the principle of valuing an estate on a hypothetical basis as on the date of death, irrespective of what may become available to the personal representatives. The valuation must of course be a matter of opinion and the law lays down that it shall be the opinion of the Commissioners of Inland Revenue. In arriving at their opinion, the Commissioners are required to ignore most of the facts and to make two assumptions. They must assume an open market and a willing buyer. You should note carefully that they are merely required to assume these things. They are not required to provide the market nor are they required to produce the willing buyer. If later, in the restricted market which normally exists, the personal representatives realize property at considerably less than the valuation there is no adjustment of duty.

'Perhaps this sort of thing did not matter very much in 1894, but it ought no longer to be tolerated when the duty involved is as high as that now imposed.

'Even if an estate consists mainly of readily realizable investments, the existing law can easily render an estate insolvent if shortly after the death there is a sudden fall in the value of the investments. That is bad enough. But where an estate consists mainly of a business, or of shares in a private company carrying on a business, the Council has pointed out that the hypothetical considerations upon which the valuation must be based become even more unrealistic and potentially dangerous.

'The Council's proposal is that the proceeds of realization, after deducting expenses of realization of assets realized within one year after death, should be substituted for the probate values of those assets and the duty adjusted accordingly. We also suggest that deduction should be allowed for expenses incurred in settling the value of the estate for duty purposes.

The Holt Case

'If anyone had any doubt about the need for such a reform, that doubt must surely have been swept away by the revelations in Court in the *Holt* case. When the Inland

Revenue can start at £3 per share, as against 11s 3d put forward by the personal representatives, it is clear that one side or the other must be adopting an unrealistic attitude.

'In this particular case, the Commissioners made a determination at 34s per share - an astonishing reduction from £3 - they then agreed in Court to reduce this to 25s per share and in the end the judge decided that the value was 19s per share, as compared with 17s 2d put forward in Court on behalf of the personal representatives.

'In this case there is little doubt as to which side started off with an unrealistic attitude. The Commissioners have done a great public service in allowing this case to come to Court, particularly at such an opportune moment as when the Chancellor is engaged in a review of estate duty anomalies. No better support could have been provided for what the Council has said in its memorandum. (Hear, hear.)

Rate of Duty can be Affected

'Those who are not conversant with estate duty law may perhaps not realize that if the personal representatives are putting forward a valuation of, say, 30s per share and the Inland Revenue are holding out for 50s per share, the acceptance of the higher figure does not merely affect the duty on those shares. It can easily raise the *rate* of duty several steps up the scale and this rate applies to the whole of the estate and not merely to the shares in question.

'The second main point which the Council has put forward deals with the question of finding the money to pay the duty. The suggestion is that probate should be granted on payment of a deposit in respect of the estimated duty on personalty, with facilities for the balance to be paid by instalments in so far as the estate consists of a business or of shares in certain types of private companies.

Family Businesses

'The Council's third main point relates to family businesses. The special difficulties of these businesses would, of course, be relieved considerably if the suggestions I have already mentioned were adopted, namely, a more realistic valuation and a more realistic attitude towards payment. But in addition to the general difficulties surrounding all estates, the family business is affected in particular by Sections 46 and 55 of the Finance Act, 1940. I am not going to attempt to repeat what the memorandum says at some length on this highly complex subject. No one can be sure what the sections really mean. But the real substance of the Council's suggestions can be explained very shortly.

'The Council considers that the sections should be applied only in the circumstances for which they were undoubtedly

devised, namely, cases where there has been a deliberate attempt to avoid estate duty by artificial means. If this urgently-needed change is not made, then certain glaring anomalies should be removed; and in addition, the method of valuation should be much more realistic so as to remove the unfair discrimination against estates consisting of shares in family companies as compared with shares in public companies.

Need for Early Action

'The Council has stated that there is plenty of evidence that steps have been or are being taken by the proprietors of many private businesses to dispose of their interests in order to safeguard their dependants from disastrous consequences. In view of the importance attaching to the continuance of family businesses as an essential part of the national economy, the need for early action is obvious and the Council has said so in its memorandum.

'Whether the rates of duty should be as high as they are, is largely a matter of politics. If, however, Parliament considers that rates ranging up to 80 per cent are still appropriate, then Parliament should at least ensure that the amount taken away is in fact the prescribed percentage of what would otherwise go to the beneficiaries and not a percentage of what might have gone to them in entirely hypothetical circumstances.

'I think it is important to remember that estate duty is a means of taking something away from those who would otherwise have benefited from the death. It is perhaps not sufficiently realized that nothing can be taken away from the deceased. He may not be entirely out of harm's way but he is certainly beyond the reach of the Commissioners of Inland Revenue.' (Applause.)

The Sheriff of Nottingham (Councillor W. J. Cox), who answered the toast of 'The Guests' which was proposed by Mr P. H. Blandy, T.D., A.C.A., made a plea for professional men such as accountants to come forward to serve on the City council. 'We have great difficulty in filling the vacancies which arise in some of the wards in the City,' he said.

The toast of 'The Chairman' was proposed by Mr H. R. Hilton, F.C.A. In his reply, Mr Hill said he believed that history had been made in the branch because both he and his father had been both Secretary and President of it. He paid a tribute to Mr T. M. Pragnell, A.C.A., Hon. Dinner Secretary, for his admirable organization, and to Mr H. J. Clarke, F.C.A., Hon. Secretary of the Society.

REPORTS OF PUBLIC COMPANIES

THE ACCOUNTANT ANNUAL AWARD

As already announced, *The Accountant* proposes to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange in the United Kingdom, in relation to the form and contents of the reports and accounts as issued to their members.

The factors which will be considered by the panel of judges will include the adequacy of the information given and its presentation.

Companies are requested to send, for consideration, copies of their reports and accounts (with any chairman's statement circulated therewith) to:

The Secretary, *The Accountant* Annual Award,
4 Drapers' Gardens,
Throgmorton Avenue,
London, EC2.

These should be sent at the time of publication but for the 1954 award it is requested that they be sent so as to reach the secretary not later than January 30th, 1954.

The award in 1954 will be made in respect of the reports and accounts laid before the company in general meeting within the year ending December 31st, 1953, and being for the financial year or other financial period ended last preceding that date.

The panel of judges is composed of:

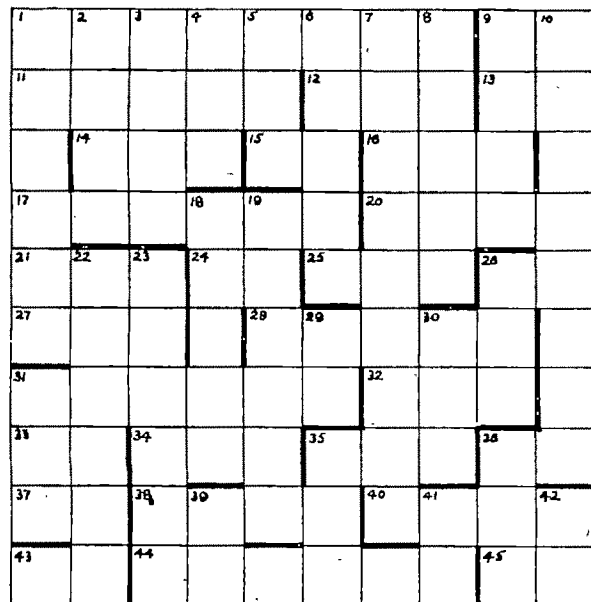
Mr Montagu Gedge, Q.C., *Chairman*; Mr W. L. Barrows, J.P., F.C.A.; Sir Harold M. Barton, F.C.A. Lord Latham, J.P., F.A.C.C.A.; Mr Thomas Lister M.A., C.A.; Mr Bertram Nelson, J.P., F.S.A.A.; Mr G. Tyser; Mr Derek du Pré, Editor, *The Accountant*.

MATHEMATICAL CROSSWORD

by GORDON S. MOORHOUSE

This differs from the normal crossword in that the solution consists solely of figures. The use of a slide-rule or mathematical tables will be helpful in finding a complete solution. It must be borne in mind that the

solution to one clue must fit in with those of other clues. As an example, No. 1 across contains eight figures and is the twenty-fourth power of a number, i.e. $2. - 2. 4. 8. 16. 32. \dots 16777216$.



ACROSS

1. A 24th power.
9. A factor of 5 down.
11. A cube.
12. A square.
13. A prime number.
14. A square.
15. A factor of 5 down.
16. A prime number.
17. A square.
20. A square.
21. A 6th power.
24. A multiple of 5.
25. A multiple of 43.
26. A multiple of 25.
27. A cube.
28. A cube.
31. A square.
32. A square.
33. A multiple of 5.
34. A multiple of 37.
35. A square.
36. A multiple of 11.
37. 13 across *plus* 1.
38. A square.
40. A cube.
43. A square.

44. A 17th power.

45. A square and a cube.

DOWN

1. A cube.
2. A cube.
3. A square.
4. A cube.
5. A multiple of 13.
6. A square.
7. A 17th power.
8. An 8th power.
9. A square.
10. A cube.
18. A 4th power.
19. A 4th power.
22. A square.
23. A square.
26. A square.
29. A multiple of 9.
30. A square.
31. A square.
35. A multiple of 9.
36. A square.
39. A factor of 5 down.
41. A 5th power.
42. 15 across *minus* 1.

The solution will be published in next week's issue.

IN PARLIAMENT

School Fees: Tax Allowance

Mr WALKER-SMITH asked the Chancellor of the Exchequer whether, in formulating his Budget for 1954, he will give sympathetic consideration to the provision of income-tax reliefs in respect of expenditure at independent schools.

Mr R. A. BUTLER: My hon. friend raises an important point of principle, but I will certainly consider this suggestion, in common with other taxation suggestions, when I am framing my 1954 Budget proposals.

Hansard, December 8th, 1953. Oral Answers. Col. 1801.

Tax Evasion Cases

Mr HOUGHTON asked the Chancellor of the Exchequer whether his attention has been drawn to the comments made by Mr Justice Stable in a tax-evasion case at the Assizes in Leeds on November 12th, 1953; and upon what grounds the Board of Inland Revenue base their decision to prosecute or to settle on payment of money penalties in tax-evasion cases.

Mr R. A. BUTLER: Yes, sir. The particular case was

one in which a cashier-accountant who was entrusted with the P.A.Y.E. arrangements of his firm falsified the records to his own advantage. It is the Board's practice to prosecute in cases of this kind. For a statement of the Board's general practice in regard to instituting criminal proceedings for alleged frauds on the Revenue, I will, with the hon. Member's permission, arrange for the circulation in the Official Report of a copy of an answer given to a question in this House on October 5th, 1944, at columns 1149-50.

Mr HOUGHTON: Is the right hon. gentleman aware that I am familiar with the statement made by the then Chancellor of the Exchequer, Sir John Anderson? Can the right hon. gentleman supplement that statement by making clear to all concerned the difference between cases in which there is evidence of intent to defraud and those cases in which a reasonable plea of omission might be made, and the difference of treatment of the two cases from the point of view of prosecution or acceptance of money penalties?

Mr BUTLER: The question of whether to prosecute or to accept money penalties is a difficult one. It is partly dealt with in the statement I am circulating, but I will certainly see whether any further investi-

gation can be made in response to the suggestion of the hon. Member.

Sir H. WILLIAMS: Will my right hon. friend consider prosecuting the Board of Inland Revenue when they demand 55s per share for the purposes of death duties and the judge ultimately decides that it is 19s? Is not that as big a fraud?

Following is the answer:

Sir J. ANDERSON: The practice of the Commissioners in this matter is governed by Section 34 of the Finance Act, 1942 [now Section 504, Income Tax Act, 1952], which makes provision for the admissibility in evidence of any disclosure made in the circumstances there set out. As the section indicates, the Commissioners have a general power under which they can accept pecuniary settlements instead of instituting criminal proceedings in respect of fraud or wilful default alleged to have been committed by a taxpayer. They can, however, give no undertaking to a taxpayer in any such case that they will accept such a settlement and refrain from instituting criminal proceedings even if the case is one in which the taxpayer has made full confession and has given full facilities for investigation of the facts. They reserve to themselves complete discretion in all cases as to the course which they will pursue, but it is their practice to be influenced by the fact that the taxpayer has made a full confession and has given full facilities for investigation into his affairs and for examination of such books, papers, documents or information as the Commissioners may consider necessary.

'The above statement of the Commissioners' practice should be regarded as replacing the one made by my predecessor on the Second Reading of the Finance Bill, 1942, which has, I understand, given rise to some misapprehension.'

Hansard, December 8th, 1953. Oral Answers. Col. 1801.

Bank Deposits: Tax

Mr HOUGHTON asked the Chancellor of the Exchequer what steps he has taken to impress upon bank depositors and others receiving untaxed interest that all amounts of such interest received or credited to their accounts should be entered on their income-tax returns.

Mr R. A. BUTLER: The instructions on income-tax return forms make it quite clear that interest of this kind is liable to tax and should be returned. A reminder is also being inserted in new Post Office Savings Bank books as they are printed that depositors who make a return for income-tax purposes should include any interest on the deposits. I am informed that the Trustee Savings Banks are being recommended by the executive committee of their association to put a similar reminder in a reprint of their pass-books.

Hansard, December 8th, 1953. Oral Answers. Col. 1802.

Post-war Credits

Mr PETER FREEMAN asked the Chancellor of the Exchequer the average time that elapses after the ages of 60 and 65 years for women and men, respectively, before the actual payment of post-war credit is made; and whether he will arrange for applications to be made three months before they become due, that all details may be certified and actual payment be made on the day on which it becomes due.

Mr R. A. BUTLER: Under the law, a post-war credit

holder who reaches the required age has to make a claim to the Inland Revenue before he becomes entitled to payment. I regret I cannot give any useful estimate of the average period which elapses between the claim and the payment. Straightforward claims are frequently paid within a week, but in particular cases inquiries may be necessary which cause delays varying according to the individual circumstances. In answer to the second part of the question, I would refer the hon. Member to the reply given to my hon. friend the Member for Twickenham (Sir E. Keeling) on June 25th, 1953.

Mr FREEMAN: Is the right hon. gentleman aware that the claim form is not generally accepted until the man or woman has reached this age? Is it not iniquitous that, after waiting for ten years, they are still kept waiting a further period beyond the legal time? Would not the suggestion I made enable this payment to be made on the legal date when it is due to them?

Mr BUTLER: This is a little difficult for the reasons I gave in my answer. But I will investigate, as a result of the hon. Member's question, whether we can accelerate the procedure even more, although the normal procedure usually entails a delay of only a week.

Mr M. LINDSAY asked the Chancellor of the Exchequer what would be the approximate cost of paying widows their late husbands' post-war credits.

Mr R. A. BUTLER: About £41 million in the first year and £4 million a year thereafter.

Mr SHURMER: Has the Chancellor considered the suggestion put to him of paying these widows on the day the husband would have become 65 years old had he lived?

Mr BUTLER: Yes, sir. We have examined that possibility but in this close season I can make no statement.

Brigadier CLARKE asked the Chancellor of the Exchequer if he will give consideration to the question of the repayment of post-war credits to next of kin where the owner of these credits reached the required age of 65 years but died before the regulations for repayment were made.

Mr R. A. BUTLER: I will consider this and other suggestions for payment of post-war credits when I am framing my Budget proposals, but I cannot, of course, give any undertaking.

Brigadier CLARKE: May I ask my right hon. friend whether, in cases where people reached the age of 65 and died before the existing regulations were made, he will now in fairness consider paying their next of kin?

Mr BUTLER: I can give no undertaking about that. The point brought to my attention by the hon. and gallant gentleman is a strong one, and one which I have already considered.

Hansard, December 8th, 1953. Oral Answers. Col. 1805.

Transfer Grants: Tax

Wing-Commander HULBERT asked the Chancellor of the Exchequer why transfer grants which are wholly

expended on removal by an officer are, by his regulations, made liable to income-tax and sur-tax.

Mr R. A. BUTLER: Transfer grants are paid to civil servants in addition to the various other allowances which are intended to cover the specific expenses of the move. They are payments in the nature of compensation for disturbance which have to be treated as additional remuneration chargeable to tax.

Hansard, December 8th, 1953. Oral Answers. Col. 1806.

Tax Appeals: Cost

Wing-Commander HULBERT asked the Chancellor of the Exchequer if he will direct that, when the Inland Revenue decide to appeal against a decision by the local Commissioners of Income Tax, solely on a question of principle, the whole cost of such an appeal shall be borne by the Treasury.

Mr R. A. BUTLER: I cannot adopt my hon. and gallant friend's general suggestion, the scope of which might be very wide, but special arrangements as to costs are made in appropriate cases where the taxpayer is of modest means. The Board of Inland Revenue is also willing, in cases where it appeals to the Courts against a decision by Commissioners on a novel or doubtful question of general application, to consider sympathetically proposals for an arrange-

ment about costs. If my hon. and gallant friend has a particular case in mind, I will look into it if he will send me details.

Hansard, December 8th, 1953. Oral Answers. Col. 1807.

Post-war Credits

Mr GOWER asked the Chancellor of the Exchequer in what circumstances and under what conditions post-war credits are accepted in payment of tax obligations; and what proposals he has for extending this procedure.

Mr R. A. BUTLER: Post-war credits not yet due for payment cannot in general be accepted in satisfaction of taxation obligations. But under the arrangement referred to in the House on October 29th, 1946, by the right hon. gentleman, the Member for Bishop Auckland (Mr Dalton), the post-war credit for the one year 1945-46 was set off against arrears of tax outstanding under P.A.Y.E. at the end of that year. I do not propose to extend this arrangement.

In the special case of a bankrupt person, his post-war credits may fall to be set off under the bankruptcy law against tax due from him.

Hansard, December 8th, 1953. Written Answers. Col. 203.

NOTES AND NOTICES

Personal

MESSRS COTTERILL, KIRK, SALT & Co, Chartered Accountants, announce that as from December 14th, 1953, they have changed their address from Stock Exchange Buildings, 33 Great Charles Street, Birmingham, 3, to Sun Building, Bennetts Hill, Birmingham, 2. Telephone: Midland 6772/3.

MESSRS JAMES WORLEY & SONS, Chartered Accountants, of 16 Union Court, Old Broad Street, London, EC2, Eastbourne, Ilford and Kingston, announce that, as from January 1st, 1954, they are taking into partnership Mr R. GORDON TILLEY, A.C.A., who has been a member of their staff for the past fifteen years.

MR CLIFFORD LONG, F.C.A., of The Manor House, Manor Street, Bradford, 1, announces that as from December 1st, 1953, he has taken into partnership his son, Mr WILLIAM CASSON LONG, A.C.A., who has been associated with him for a number of years. The practice will continue to be carried on under the name of CLIFFORD LONG & SON., Chartered Accountants.

MESSRS HERBERT PEPPER & RUDLAND, Chartered Accountants, of 33 St James's Street, London, SW1,

announce that as from December 25th, 1953, they have taken into partnership Mr DAVID BROWNING, A.C.A., who served his articles with the firm and has continued with it since qualifying in 1950. The style of the firm remains unchanged.

The Institute of Chartered Accountants in England and Wales

Correction to the report of the Meeting of the Council on December 2nd, 1953

The Secretary of the Institute of Chartered Accountants very much regrets that, as a result of incorrect information, Mr Frank Walter Bristow, F.C.A., London, was reported in *The Accountant* of December 12th, 1953 (page 668), as having died. Mr Bristow assures the Secretary that he is very much alive.

Professional Notes

Mr J. L. Le Fanu, B.A.(CANTAB.), C.A., commercial manager of Ind Coope & Allsopp Ltd, has been appointed a director of a subsidiary company, Strettons Derby Brewery Ltd.

Mr Kenneth F. Suggett, A.C.A., has been appointed

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to the boards of the Argentine Southern Land Company, the Cordova Land Company, and the Tecka (Argentina) Land Company. He will continue to hold the position of secretary to these companies.

Solution to Double Acrostic

(1)	N	arcissu	S
(2)	Mount A	rara	T
(3)	N	eve	R
(4)	K	nif	E
(5)	I	nterru	Pt
(6)	P	ooh Ba	H
(7)	O	vidius Nas	O
(8)	O	pinio	N

NOTES

Uprights

Characters from *The Mikado* and *Iolanthe* respectively.

Lights

- (1) Dialogue from *Patience*, Act ii.
- (2) One of the Earls from *Iolanthe* who lost his fiancée, Phyllis.
- (3) *Obiter dictum* by the judge (His Lordship) in *Trial by Jury* about the Plaintiff -
'Oh! never, never, never,
Since I joined the human race,
Saw I so exquisitely fair a face.'
- (4) Mentioned by Rose Maybud in one of her pronouncements on etiquette, and by Wells in his Act ii duet with Lady Sangazure.
- (5) From the finale to Act i of *The Mikado*.
- (6) The well-known pluralist in *The Mikado*.
- (7) Ovid is mentioned in Act ii of *Princess Ida*, Robin's First Act song in *Ruddigore* and "The Queen of the Fairies", Act ii, song in *Iolanthe*.
- (8) Don Alhambra's Act ii solo from *The Gondoliers*:
'And party leaders you might meet
In twos and threes in every street
Maintaining, with no little heat,
Their various opinions.'

Costs of Trustees

In a practice direction on trustees' costs issued on October 27th, 1953, by the Chief Registrar of the Chancery Division by direction of the judges of the Chancery Division, may be seen a sequel to the case of *In re Dargie; Miller v. Thornton-Jones and Others* ([1953], 2 All E.R. 577), which was discussed in an article entitled 'Costs and remuneration of trustees' in the issue of *The Accountant* dated October 24th, 1953, at page 463. The direction ([1953], 2 All E.R. 1159) is as follows:

'In cases in which trustees are parties in their capacity as such and in which it is appropriate that they should be indemnified as to their proper costs and expenses of the proceedings, the order as to the costs of the trustees should direct taxation of their "costs and expenses of and incident to this action [application] [matter]" without the addition of the words "as between solicitor and client".'

On such a direction all costs and expenses properly incurred by the trustees will be allowed by the taxing master. The costs of other parties to the proceedings will, as hitherto, be ordered either (a) "to be taxed" (i.e. as between party and party); or (b) "to be taxed as between solicitor and client".'

This direction emphasizes the intention that trustees should as a general rule be fully indemnified for their out-of-pocket expenses, and provides a short and simple formula to be used in the order as to costs in cases where trustees are entitled to this indemnity. The formula differs from the words used in *Poole v. Pass* ((1839), 1 Beav. 600), in omitting words from, instead of adding them to, the familiar formula, 'costs as between solicitor and client', but the reference to costs and expenses 'of and incident to' the matter in question makes clear the intention that the trustees shall be accorded full indemnity. The direction does not, of course, in any way affect *In re Dargie*: trustees with a personal interest in the litigation in which they indulge will not necessarily be able to obtain an order ensuring them full indemnity out of the trust estate.

Our Contemporaries

REVISION OG REGENSKABSVAESEN. (Copenhagen.) (November.)
THE CONTROLLER. (Brattleboro, Vt.) (October.)
L'ORGA LA COMPTABILITE. (Paris.) (November.)
THE BRITISH MANUFACTURER. (December.)
THE C.P.A. (New York.) (November.)
INFORMATION. (Stockholm.) (November.)
NEWSETTE. (Manila.) (September.)
THE LAW SOCIETY'S GAZETTE. (December.)
DIE WIRTSCHAFTSPRÜFUNG. (Stuttgart.) (November.)
HANDELSVIDENSKABELIGT TIDSSKRIFT. (Copenhagen.)

Other Publications Received

ABSTRACT OF ACCOUNTS of the City of Johannesburg for the year ended December 8th, 1953.
ACCOUNTS of the Buckinghamshire County Council for the year ended March 31st, 1953.

SEVENTY-FIVE YEARS' AGO

FROM *The Accountant* OF DECEMBER 21ST, 1878
Accountants' Incorporation Association

A meeting of Public Accountants was held in the Memorial Hall, Albert-square, on Monday, 16th December, 1878, for the purpose of forming an Association, having for its object the ultimate passing of a bill through Parliament, providing for the incorporation of a properly qualified body of Public Accountants, and of opposing in its present shape, a bill for that purpose which is now being promoted by the Institute of Accountants (London). There was a good attendance of Manchester Accountants, and representatives were also present from Halifax, Sheffield, Bolton, Oldham, Rochdale, Blackburn, Stockport, &c. . . .

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The Accountant

ESTABLISHED 1874

DECEMBER 26TH, 1953

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CONTENTS

Leading Article	Page
The Profession in 1953	705
Special Articles	
Taxation of Partnerships by <i>T. J. Sophian</i>	707
The Alternative to Winding-up by <i>Spencer G. Maurice</i>	710
North American Commentary - XLVIII by <i>Kenneth F. Byrd, M.A., B.Sc.(Econ.), A.C.A., C.A., (S.A.), Professor of Accounting, McGill University, Montreal</i>	712
Lecture	
Management Accounting for Public Administration by <i>Lawrence W. Robson, F.C.A., F.C.W.A.</i>	714
Weekly Notes	718
Reviews	720
Finance and Commerce	
Debenhams Ltd - Prices	
Trust Co Ltd - Atkins	
Brothers (Hosiery) Ltd - Money Market	722
Current Law	726
Correspondence	727
London Students' Column	
News from the London Chartered Accountant Students' Committee	729
Accountants' Crossword	
Compiled by <i>Kenneth Trickett, A.S.A.A.</i>	729
Reports of Public Companies: The Accountant Annual Award	730
Notes and Notices	
The Accountant: Index to Volume CXXIX - Personal - Obituary - In Parliament - Chartered Accountant Member of Coal Board Inquiry - Agricultural Marketing: Consumers' Committee - Stock Exchange Members' Accounts - Report on Trade Unions - Union of Chartered Accountant Students' Societies - The Law Affecting Accountancy - Mansfield Law Club - Mathematical Crossword Solution - Our Contemporaries - Seventy-five Years Ago	730

THE PROFESSION IN 1953

IT is the custom of critics and commentators each December to recollect (with the aid of back numbers) the more memorable happenings of the past twelve months, and to write around them the epitaph for the dying year. Almost all the arts and sciences receive this annual valedictory attention and in many cases it is customary to say a few cautious words about trends and developments. If the eminent literary critic's twelve best books of the year are all biographies, then he might be justified in suggesting that the novel as an art form was dead or, at least, dormant. If the cinema critic's twelve best films of the year were all made in France, then he might reasonably imply that the industry elsewhere had no future.

In the accountancy profession there are no similar landmarks to help the historian. Auditing, the staple work of the practitioner, is a rhythmic and recurring process and any changes in methods are evolved too slowly to make sudden impact. Moreover, the auditor's relationship with his client is such that most of his work is done, so to speak, by stealth and even when he is required by the Companies Act publicly to report on the results of his stewardship, the less he has to say the better he - and his client - are pleased.

It is true that the accountant's place in industry, be it as controller, consultant or director, is rapidly growing in importance. This is not, however, because the members of the profession who occupy these responsible positions have suddenly become initiated in new and specialized techniques. Industrial accountancy, as Mr T. B. ROBSON, M.B.E., M.A., F.C.A., said in his outstanding presidential address at the annual meeting of the Institute in May, 'is not a mysterious cult.' Its intricacies may quickly be mastered by applying the basic principles learned - and exercising the initiative, skill and judgment fostered - by the best professional training.

Accountancy, then, is not a spectacular calling like, say, art or acrobatics and no review of its activities over a single year can be expected to be in any way sensational. It may safely be said, however, that the prestige of the profession in the eyes of the financial and commercial world has never been higher than it is today, and that at no time in its history have the demands for the services of accountants been greater.

This confidence of the community is reflected in the steadily increasing membership of the principal accounting bodies. Furthermore, this recruitment has been achieved without any deviation from the high standards of qualification necessary to ensure for the future the same traditions as have been maintained in the past. At the end of last year, the combined membership of

the three Institutes, the Society and the Association totalled 40,897 as compared with 5,550 in 1902.

In order to preserve the honourable place which the profession has won for itself in the world of affairs, it is essential that members should be well informed on such new legislation as concerns their work and, also, that they should have opportunities for meeting together to discuss the latest developments in accounting thought. Judging from the chronicled activities of 1953, the importance of this second point is fully recognized. Foremost among these gatherings are the regular summer schools or conferences held by the respective professional bodies. The Institute brought off its biennial double by having its seventh annual summer school at Christ Church, Oxford, in July, and its twenty-first autumnal meeting, held in alternate years, at Scarborough in October. The Society's residential course took place at Cambridge in September and the venue of the Association's annual conference was Folkestone in June. The Scottish Institute held its first summer course at St Andrew's University in July and our contemporary, *Taxation*, selected Bournemouth in October for its third annual conference. At each of these assemblies both the quality of the papers delivered and the enthusiasm of the discussions, formal or informal, which followed, demonstrated the vital interest which is being taken by members in the affairs of the profession. We feel sure that the other lecturers will not regard it as invidious if we make special mention only of the address given by MR JOHN L. CAREY, the executive director of the American Institute of Accountants, at Christ Church, on the organization and activities of the accounting profession in the United States. This paper was of particular significance not only for the insight it gave into American principles and practices but also for the constructive comparisons which could be made from it of conditions in the two countries.

During the year, accountants have, as hitherto, been prominent either in serving on committees or in submitting expert evidence thereto. The committee set up last December under the chairmanship of MR MONTAGU L. GEDGE, Q.C. – its members also include MR JOHN ADAMSON, C.A. – to consider the practicability of issuing no par value shares in this country, has received memo-

randa from the English and Scottish Institutes, the Society and the Association. Evidence has also been submitted by these bodies to the Board of Inland Revenue on the present anomalous state of estate duty law.

Notable book publications of the year included the official record of the proceedings of the Sixth International Congress on Accounting, held in London last year, and (from America) the encyclopaedic two-volume *C.P.A. Handbook*. Two important pamphlets were issued by the Council of the Institute towards the close of the year. One was entitled 'Notes on the treatment of profits tax in accounts' and the other – No. XVI of the series of recommendations on accounting principles – 'Accountants' reports for prospectuses: adjustments and other matters'. Both have commanded widespread attention in the City.

The retirement last June of MR J. C. LATHAM, D.L., F.A.C.C.A., F.S.A.A., F.C.I.S., from the secretaryship of the Association of Certified and Corporate Accountants ended a spell of more than thirty-one years of outstanding service. MR LATHAM has consented to act as a part-time director in an executive and consultative capacity so that the benefit of his long experience and ripe wisdom will not be lost to the Association or to the profession as a whole.

It is appropriate that, as indicated above, any review of the passing year should also look cautiously ahead. It is a commonplace that the future of the profession depends on the quality of each new generation of members but, like all other generalizations, it is sometimes overlooked. At the Institute's autumnal meeting, the President, MR JAMES BLAKEY, F.C.A., emphasized the care which should be taken by practitioners to see that only the right kind of student is admitted to articles. Worthiness to become a member of the profession must be the first requirement of each potential clerk. The President suggested that principals should review the position of each clerk after three years' service in articles. This policy would enable those students who had shown no real aptitude for accountancy to make a fresh and timely start in some other occupation before any unhappy complex, brought about by repeated examination failures, set in. It would also help to ensure that the lustre of the profession, in the unique position it occupies in modern society, remains undiminished.

TAXATION OF PARTNERSHIPS CHANGES UNDER THE FINANCE ACT, 1953

by T. J. SOPHIAN

SECTION 19 of the Finance Act, 1953, has introduced some important alterations with regard to the taxation of partnerships in cases in which a change takes place in the constitution of the partnership.

Before examining the effect of this section it is necessary to consider the commencement and cessation provisions of the Income Tax Acts.

Where a business is commenced – which will usually be in a broken year and not at the very commencement of the financial year on April 6th – the assessment for the first three years normally will be as follows:

For the first year in which the trade is commenced, it will be on the actual profits in such year; for the second year, on the profits of the *first twelve months* of the business; for the third year, on the profits of the preceding year up to which accounts are made up (Section 128 of the Income Tax Act, 1952).

But the owner of the business has the option to be assessed for both the second and third years – but not for one of those years only – on the actual profits respectively made in the second and third years (Section 129 (2) of the Income Tax Act, 1952). In order that this option should be exercisable, however, notice to that effect must be given to the Inspector within two years after the end of the second year of assessment; but should the taxpayer repent of his exercise of this option, he is given a *locus poenitentiae*, and he may revoke the option by giving notice to that effect within twelve months after the end of the third year of assessment (proviso to subsection (2) of Section 129).

Discontinuance of Trade

Where there is a discontinuance of trade, the two material periods which will be affected are the last year of the trading, which may be a broken period, and the penultimate year.

For the last year of trading, he will be chargeable on the actual profits as from April 6th in that year down to the date when the business was discontinued. And for the year of assessment previous to that year, the penultimate year, he will be chargeable either on the basis of the actual profits earned in the ante-penultimate year, or on the profits of the penultimate year, whichever

are the greater. In other words, therefore, he will be chargeable in respect of the penultimate year on the actual profits of that year, if those profits exceed the profits made during the previous year. (Section 131 of the Income Tax Act, 1952).

Change in Partnership: Law Prior to the 1953 Finance Act

Where the constitution of a partnership was changed, the assessment of the partnership, notwithstanding, would have been made on the normal basis, i.e. on the basis of the profits made during the year preceding the year of assessment, unless *all* the persons engaged in the trade both *before* and *after* the change, within twelve months of the change, gave the requisite notice exercising the option conferred by Section 145 of the Income Tax Act, 1952. According to this option, the assessments would be made on the basis of the old partnership having discontinued the trade at the date of the change, and of the newly-constituted partnership having commenced a new business as at that date.

And, accordingly, the adjustments referred to above, with regard to the commencement and discontinuance of business, would have to be made.

The exercise or non-exercise of such an option according to the circumstances may have benefited some of the partners and may have prejudiced others.

The *Osler v. Hall* Decision

Furthermore, the existence of the option opened the door to legitimate tax avoidance, of which a good illustration is afforded by the case of *Osler v. Hall & Co* (11 A.T.C. 253; 17 T.C. 68).

In that case the constitution of the partnership was changed twice within a short space of time. The original firm was firm 1, and its constitution was changed on March 21st, 1929, by the retirement of a partner; whereupon a new firm, firm 2, came into being. Firm 2 carried on business from March 22nd, 1929, to March 30th, 1930. The constitution of firm 2 was later changed on March 30th, 1930, by the admission of a new partner, whereupon firm 3 came into being.

The option was exercised on the occasion of the second change in March 1930, but not on the occasion of the first change in March 1929. The profits were as follows:

Year ending	£
April 5th, 1928 (the ante-penultimate year) (earned by firm 1)	50,000
April 5th, 1929 (the penultimate year) (earned by firm 1)	114,000
April 5th, 1930 (earned by firm 2)	Nil

Firm 1 was assessed for year ending April 5th, 1929, on the £50,000, the profits of the previous year, but no adjustment of this assessment was made under Rule 9 (2) of Cases I and II on firm 2 in respect of the fifteen days March 22nd to April 5th, 1929. Firm 2 would have been assessable for the year ending April 5th, 1930, on the profits of £114,000 made during the previous year, but by the service of the notice exercising the option on the occasion of the second change, the discontinuance and commencement provisions referred to above were brought into operation. As the result of the notice, accordingly, firm 2 were chargeable for the year ending April 5th, 1930, on the actual profits made during that year, which were nil, so that there was a nil assessment on firm 2 for the year ending April 5th, 1930.

The Fallacy in the Crown's Argument

But then the Crown sought to argue that as the profits (£114,000) for the previous year ending on April 5th, 1929 (i.e. the penultimate year) exceeded the profits (£50,000) made during the 'ante-penultimate year' ending on April 5th, 1928, by the sum of £64,000, the assessment on firm 2 for the penultimate year ending April 5th, 1929, should be on the excess of £64,000. But the difficulty in the way of the Revenue was that the assessment for the year ending April 5th, 1929, viz. £50,000 (based on the profits of the previous year ending April 5th, 1928) had been made not on firm 2, but on firm 1, but firm 2 had never been assessed and charged for the year ending on April 5th, 1929. As Finlay, J., pointed out, one cannot have a charge on A. for year 1 and have an additional assessment levied for the same year 1 on B., a different person.

Thus he said (11 A.T.C. 258):

'Now it seems to me – and the words "additional assessment" show it; the whole structure of the section' [Section 31 (b) of Finance Act, 1926] 'shows it – that the thing manifestly contemplates an assessment upon a person, that assessment being by reason of subsequent events inadequate, and, therefore, an additional assessment being

made upon that person. . . . It seems to me that it is obvious that what the Legislature is dealing with is the case, the simple case, the usual case, no doubt, where a person has been charged and then, in the light of subsequent events, it is proper to make an additional charge upon that person. But the whole basis of the thing must, as I think, be the existence of a charge upon the person upon whom it is now proposed to levy an additional assessment. Now if that is right, the whole basis of the Crown's case fails, and fails because Hall & Co, No. 2, never were in fact charged for this year of assessment. All that can be said is that Hall & Co No. 1 having been charged, an adjustment might have been made in respect of a period of fourteen days. That adjustment never was made and I think it can be ignored. Here, the substance of the thing clearly is this: that not Hall & Co No. 2 but Hall & Co No. 1 were carrying on the business in the year in question, and they were the people who were assessed. They were charged. You cannot, as I think, have a charge upon one firm, Hall & Co No. 1, and then an additional assessment levied upon another firm Hall & Co No. 2.'

This case, therefore, has enabled partnerships in the past to avoid taxation by making, at suitable times, changes in their constitution.

Finance Act, 1953

Let us now consider the alterations introduced by Section 19 of the Finance Act, 1953.

Under subsection (1) of that section, as regards changes occurring in 1953 and after, there will be an automatic cessation and commencement, unless *all* the persons engaged immediately *before*, and immediately *after* the change, elect otherwise, for which purpose notice to that effect must be given to the Inspector within twelve months after the date of the change (subsection (3) of Section 19). In order, however, that this election should be exercisable there must be some continuity in the partnership, and there must be at least one person who was a member of the old firm who is now a member of the new firm. Where a partner who has to make the election, dies, the election may be made by his personal representatives (subsection (6)).

Carrying Forward of Losses

Under Section 342 of the Income Tax Act, 1952, losses sustained in a business can be carried forward and be taken into account for future years in which the business is still carried on.

And under Section 341 of the Income Tax Act, 1952, which replaced Section 34 of the Income Tax Act, 1918, relief could be obtained by adjustment

of the tax liability for the year in which the loss occurred, the loss being set off against any income for that same year. Subsection (3) of Section 15 of the 1953 Finance Act has extended this relief, by allowing the loss to be carried forward but for one year only, and set off against any income of such subsequent year, provided the same business in respect of which the loss was made is being carried on in such subsequent year.

It is apparent, therefore, that Section 342 relief, and the extended Section 341 relief (i.e. extended by Section 15 (3) of the Finance Act, 1953) postulates the carrying on of the same business in the year in which the relief is being claimed.

Now if there is cessation and the commencement of a new business as the result of a change in a partnership, such relief could not be claimed, but subsection (2) of Section 19 of the Finance Act, 1953, expressly provides that a person who was a partner in the old business and who is now a partner in the new business as the result of the change, is to be treated nevertheless as carrying on the same business, for the purpose of claiming such reliefs against losses. Further, under paragraph (b) of subsection (2) of Section 19, a 'continuing' partner may set off any loss sustained by him in the part of the assessment year *before* the change, against any profit earned in the same year *after* the change.

Furthermore, under paragraph (c) of Section 19 a continuing partner's share of any unexhausted initial or wear and tear or other capital allowances under Parts X or XI of the Income Tax Act, 1952, in respect of the old partnership, can be carried forward and set off (under Section 342 of the Income Tax Act, 1952) against the profits of the new partnership in future years.

In other words, because of the application of the cessation and commencement provisions, upon the change in the partnership, unexhausted capital allowances of the kinds above-mentioned would have been lost, but they are now expressly preserved for the benefit of continuing partners (i.e. persons who were partners in the old and are now partners in the new business) by paragraph (c) of Section 19 (2).

Furthermore, in determining the shares of a continuing partner in such unexhausted capital allowances, regard must be had to the proportion of the rights and profits to which such partner was entitled in accordance with the terms of the old partnership and not any altered terms under the new partnership (Section 19 (2)).

Position where Notice of Election is Given

Suppose now that an election has been made by all the old and new partners, so that the automatic cessation and commencement provisions are not to apply. Tax will be computed for the year in which the change has taken place as if in fact there had been no change, and will be assessed and charged separately on the old and new partners, and apportioned between them as the General or Special Commissioners, as the case may be, might deem just. The procedure under Section 329 of the Income Tax Act, 1952, relating to apportionment will apply (Section 19 (4) (a) of the Finance Act, 1953).

Overruling of *Osler v. Hall*

The effect of the decision in *Osler v. Hall*, which has been considered in detail above, is avoided by paragraph (b) of Section 19 (4) of the Finance Act, 1953. As has already been pointed out, as the result of *Osler v. Hall*, a partnership could, according to the circumstances, avoid tax by making successive changes in its constitution at opportune moments. But now under the above paragraph (b), if there is a change but the business is treated as being continued notwithstanding, in consequence of the election, and if before the end of the following year of assessment after the change has occurred, there is another change and no election, so that there would be an automatic discontinuance and commencement on the occasion of the second change, then if the actual profits of the *penultimate* year exceed the amount of the assessment for that *year*, an additional assessment will be made on the partnership, as it was assessed immediately before the *first* change (i.e. the change after which the business was nevertheless treated as continuing because of the exercise of the option).

If one refers now to the figures and dates in the case of *Osler v. Hall* which are given above, the effect, if paragraph (b) of subsection (4) of Section 19, had Section 19 been then in operation, would appear to be that the excess of £64,000 (by which the profits of £114,000 made during the 'penultimate year' exceeded the profits of £50,000 made during the ante-penultimate year, which formed the basis of the tax assessment for the penultimate year), would have been the subject of an additional assessment for the penultimate year, which additional assessment would have been made on firm 1 in that case and not, it appears, on firm 2, since firm 1 were the persons charged for the period *before* the first change.

THE ALTERNATIVE TO WINDING-UP

Section 210 of the Companies Act

by SPENCER G. MAURICE

THE position of members in a case where it is 'just and equitable' that a company should be wound up is improved by the inclusion in the Companies Act, 1948, of a provision (Section 225 (2)) requiring that the Court shall, in such cases, generally make a winding-up order on the presentation of a petition by contributories, whereas before the Court hesitated to make an order if there was an alternative remedy open to the petitioners. Furthermore, the Legislature, contemplating that there are times when a winding-up order, no matter how justifiable, is disastrous to those who have cause to seek it, in Section 210 gave an alternative remedy to contributories who complain of oppression:

First Judicial Examination

It was not until the case of *Elder and Others v. Elder and Watson Ltd* ([1952] S.C. 49) that the scope of Section 210 came to be examined by the Court, and though the petition to the Court of Session was something of a *brutum fulmen* and brought no satisfaction to the petitioners, the case is none the less valuable. It is true that the decision is not binding on the English Courts, but there is no doubt that, as Section 210 is common to England and Scotland, the learned judgments of the Lord President (Cooper) and Lord Keith (with which Lord Carmont and Lord Russell agreed) would carry great weight in England.

The circumstances of *Elder and Others v. Elder and Watson Ltd* were altogether regrettable. The petitioners and the respondents were all members of a small family company and had fallen out to such an extent that actual physical violence had been done by brother to brother. The objections of the third, fourth and fifth petitioners were so groundless that the Court did not consider them: the first two complained that they had been removed or excluded from the office of director of the company and that they had been forced to retire, one from his position as secretary of the company, the other from his position as factory manager. The petition was presented after some eighteen months' delay, during which time abortive negotiations were carried on for the sale of the first two petitioners' shares.

Purpose of the Alternative

The Lord President first pointed out that the purpose of Section 210 was to provide a method alternative to winding-up when winding-up would be a

'... cure ... worse than the disease, owing to the prejudice likely to be inflicted upon the applicants for relief as a result of a compulsory liquidation of the company'. (At page 54.)

He then drew attention to the fact that it was clear from the section that, save in the case of intervention under the section by the Board of Trade, the Court could only act on a petition if satisfied, first, that the company's affairs were being conducted in a manner oppressive to some part of the members including the petitioner; secondly, that to wind-up the company would prejudice unfairly that part of the members; and, thirdly, that otherwise the facts would justify the making of a winding-up order under the 'just and equitable' clause (Section 222 (f)) – a step which the Court, in spite of its wide powers, would only take as a last resort when strong grounds for a winding-up existed. There was no doubt in *Elder and Others v. Elder and Watson Ltd* that a winding-up would be prejudicial to the petitioners.

Application of the 'Just and Equitable' Jurisdiction

Having referred to the practice of winding-up under the 'just and equitable' clause, and pointed out that the authorities showed that conduct technically legal and correct may nevertheless be such as to justify winding-up, while conduct involving illegality and contravention of the Act may not, the Lord President drew the conclusion that the 'just and equitable' jurisdiction had been applied only where the circumstances had

'... been such as to warrant the inference that there has been, at least, an unfair abuse of powers and an impairment of confidence in the probity with which the company's affairs are being conducted, as distinguished from mere resentment on the part of a minority at being out-voted on some issue of domestic policy'. (At page 55.)

He continued:

"The phrase 'oppressive to some part of the members' acquires a certain colour from its collocation in Section 165 [which is concerned with investigation by the Board of Trade: *v. infra*]

with such stronger expressions as "intent to defraud", "fraud", "misfeasance" or "other misconduct", and the essence of the matter seems to be that the conduct complained of should at the lowest involve a visible departure from the standards of fair dealing, and a violation of the conditions of fair play on which every shareholder who entrusts his money to a company is entitled to rely. This, broadly speaking, was the class of case which the draftsman of Section 210 evidently had in mind, and the question is whether the petitioners have brought themselves within the scope of the section.'

Who May Petition

Lord Keith considered to whom a petition under Section 210 is open, and came to the conclusion that, apart from the Board of Trade, only a member in his capacity as member could invoke it, and that it was not open either to an employee who alleged that he had been treated oppressively, or to a director; his Lordship hastened, however, to make it clear that he did not overlook the fact that conduct towards an employee or officer may

'... have some relevance in an application under Section 210 if it is part and parcel of conduct designed to react on the rights of members as such or to further a scheme whereby the rights of a section of members may be prejudiced.' (At page 58.)

Lord Keith appears to be the first judge to draw attention to the fact that an application under Section 210 is, apart from the case of the Board of Trade, limited to members, and it is interesting to compare this limitation with the limitation upon the company's liability for statements in its articles of association as decided in the leading case of *Eley v. Positive Government Security Life Assurance Co Ltd* ((1876) 1 Ex. Div. 88).

The Board of Trade as Petitioner

The power of the Board of Trade to petition the Court for an order under Section 210 arises under Section 169 (3), which gives the Board the right to present a petition to that end if it appears to it from any report of one of its Inspectors that it is expedient to do so by reason of any of the circumstances referred to in Section 165 (b) (i) and (ii), namely, circumstances suggesting that the company's business is being conducted with intent to defraud its creditors or the creditors of any other person, or otherwise for a fraudulent or unlawful purpose, or in a manner oppressive of any part of its members, or that it was formed for any fraudulent or unlawful purpose; or that persons concerned with its formation or the management of its

affairs have in connection therewith been guilty of fraud, misfeasance or other misconduct towards it or towards its members.

Since these circumstances may presumably be brought to the Board's notice by a member, it accordingly appears that a member may be able to obtain an order under Section 210 by leading the Board to present a petition, as well as by presenting one himself.

Oppression, not Deadlock, Must be Proved

The defendant company might, as the Lord President said (at page 56), 'be fairly described as a domestic and family concern, and a small one at that', and it was contended for the petitioners that the Court should treat the case exactly as if it were an application under Section 35 (d) of the Partnership Act, 1890, which provides that the Court may decree a dissolution.

'When a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.'

This contention was based on the authority of *In re Yenidje Tobacco Co Ltd* ([1916] 2 Ch. 426), where the Court of Appeal (affirming the decision of Astbury, J.,) applied the principle of partnership and held that it was 'just and equitable' to wind-up a company where there was a complete deadlock between the only two shareholders, who were both also directors. Both the Lord President and Lord Keith pointed out that before Section 210 could be invoked it was necessary to show 'oppression' of some part of the members of the company. 'Mere loss of confidence or pure deadlock does not, I think, come within Section 210', said Lord Keith (at page 59).

Examples of Oppression

Lord Keith referred to *Loch and Another v. John Blackwood Ltd* ([1924] A.C. 783) and *Thomson v. Drysdale* ([1925] S.C. 311) as cases where there was oppressive conduct such as might justify the invocation of Section 210. In the former case, which came before the Judicial Committee of the Privy Council on appeal from the West Indian Court of Appeal (Barbados), the directors, by omitting to hold general meetings, submit accounts, or recommend a dividend, had laid themselves open to the suspicion that they intended to keep the petitioners in ignorance of the company's position and affairs and to acquire the petitioners' shares at an undervalue.

In the latter case, the First Division of the Court of Session found that, in a company with only two shareholders, one with a preponderant voting power, had so usurped the powers of the company as to make it impossible for the other to retain confidence in the impartiality or probity of the administration of the company. What brought Section 210 into play, said Lord Keith (at page 60) was:

'... not lack of confidence between shareholders *per se* . . . but lack of confidence springing from oppression of a minority by a majority in the management of the company's affairs, and oppression involves, I think, at least an element of lack of probity or fair dealing to a member in the matter of his proprietary rights as a shareholder'.

Not Appropriate to a Domestic Dispute

Lord Keith referred to the cases in which the Board of Trade can petition under Section 210, and did not find there any indication that a petition was appropriate in the case of mere domestic disputes between directors or members or lack of confidence between one section of the members and another in matters of policy or administration, much less mere private animosities between members or directors.

'The company's affairs must,' he said (at page 60), 'be conducted in a manner oppressive to some part of the members, and that connotes to my mind an abuse of power by some person or persons

controlling the company, resulting in injury to the rights of some part of its members.'

Even then the circumstances must be such as would justify a winding-up order under the 'just and equitable' clause.

Not always an Alternative to Winding-Up

Lord Keith found nothing to suggest

'... that anything that was done was designed to injure the petitioners in their rights as shareholders or did in fact do so' (at page 60)

or

'that the company is not being conducted efficiently by the existing board in the interests of the members as a whole.' (At page 61.)

Not only was a case for an order on a petition under Section 210 not made out, but there was no relevant ground for holding that it was a case for a winding-up under the 'just and equitable' clause.

Lord Keith found it unnecessary to consider whether there could be a case of oppression within the meaning of Section 210 not also justifying winding-up as being 'just and equitable', but uttered the caution that there might well be circumstances which would justify a winding-up as being 'just and equitable' which would not justify an application on the ground of oppression. In other words, Section 210 and Section 225 (2) are not inevitably linked together.

NORTH AMERICAN COMMENTARY—XLVIII

Current Accounting Opinions in the United States and Canada

by KENNETH F. BYRD, M.A., B.Sc.(Econ.), A.C.A., C.A.(S.A.),
Professor of Accounting, McGill University, Montreal

Journal of Accountancy,
New York, September and October

Advisory Committee on Cost Justification

REFERRING to the 'mystery and ignorance' which surround distribution costs, the chairman of the Federal Trade Commission has said that he will recommend the establishment of a committee on cost justification. This committee, comprising accountants, economists and lawyers, will investigate the feasibility of developing standards of proof and procedures for costing to be adopted by the Commission as guides to business enterprises. Having regard to the tendency of administrators to under-estimate the difficulty of specific cost determination, the editorial considers that such an official inquiry, if conducted by competent

accountants, might prove of enormous value. An authoritative statement of the complexities of the problem might thus be put into the official record for the guidance of those administrators who make rules on the assumption that allocation of costs to specific products is a simple process. From this latest evidence of increasing interest in cost and profit measurement by the agency specifically concerned with the maintenance of fair competition, the editorial concludes that the work of accountants seems likely to assume increasing social importance in the evolution of the country's economic system.

Cents-less Accounting for the United States

Post Office

The United States Post Office Department is

reported to have adopted 'whole dollar' book-keeping. The Postmaster-General has estimated that this will save the department \$500,000 or more annually, reducing by from 15 per cent to 25 per cent the work of the more mechanical types of book-keeping. This is the first federal agency to adopt the system.

The New Ruml Plan

Mr Beardsley Ruml, whose plan originated the United States 'pay-as-you-go' income-tax system, has announced a plan for introducing certain commercial accounting concepts into the federal budgeting and financial reporting processes. He suggests that capital expenditures for plant and investments in liquid assets, such as recoverable loans, should no longer be charged to current expense. Plant would be amortised over its useful life and the investments would be dealt with as liquid assets. The basic element in the plan, says the editorial, is the introduction of accrual accounting. It points out that today many of the Government's operations of a business or financial nature produce a return and that a great many assets with earning power are acquired. While Mr Ruml predicts large sales to commercial organizations by the nation's atomic energy plants, the editorial hopes the Government will seriously consider withdrawing from competition with investor-owned enterprise, narrowing the scope of the new Ruml plan. It sees dangers, such as the capitalization of current expenditure, if accrual accounting is adopted, and it suggests that perhaps the first step in considering the plan would be the preparation of a federal balance sheet, showing separately liquid assets, income-producing plant, non-income producing assets and liabilities, both direct and contingent. It calls for valuable creative thinking on the subject by the accounting profession.

Re-statement of Accounting Research Bulletins

In July the American Institute of Accountants published Accounting Research Bulletin No. 43, *Re-statement and revision of accounting research bulletins*.¹ This represents a re-evaluation by the present committee on accounting procedure of all the work of its predecessor committees for about fifteen years, and the editorial hails it as the most authoritative pronouncement on accounting in the United States. It is the result of thousands of man-hours spent by members of the committee and the research staff, drafting, editing, revising and re-drafting, says the editorial, to enhance the

standing of the accounting profession and to serve the interests of the community as a whole.

*N.A.C.A. Bulletin (National Association of Cost Accountants),
New York, October*

A Profit-Sharing Retirement Plan

Mr Joseph G. Sidak, Cost Accounting Supervisor, Solar Aircraft Co, tells of the plan adopted by his company long before the pension plans of the automobile and steel industries came into being. Each year that profits before taxes exceed 15 per cent of net worth, the company contributes to the plan 12½ per cent of the excess, up to a maximum of 15 per cent of the total compensation paid to the active participants during the fiscal year. Employees participate after thirty-six months of continuous service, their shares being determined by a formula based on straight-time annual earnings and years of service.

*The Canadian Chartered Accountant,
Toronto, September*

Auditors' Reports

It has been pointed out to the writer that the remarks under this head in North American Commentary XLVI¹ imply that auditors' reports on financial statements of Canadian companies still today show little uniformity. Actually the research committee's examination of 221 financial statements for 1951, issued since the publication of the Canadian Institute's bulletin No. 6, showed that 101 conformed in all respects with the bulletin's recommendations. A number of the non-conforming reports were basically along the recommended lines.

The Auditor and the Statement of Profit and Loss

Miss Gertrude Mulcahy, B.A., C.A., of the Canadian Institute's Research Department, states that of 279 auditors' reports on the 1951 financial statements two-thirds included the statement of profit and loss within the scope of the opinion, as recommended by the Canadian Institute's Committee on Accounting and Auditing Research in 1951. As to the profit and loss statements themselves, she says that, for the most part, the 'minimum standards of disclosure' required by the Companies Act, 1934 (Canada) seem to have been accepted as the actual standards. Transfers to or from reserves are, in a number of cases, still allowed to affect reported net profit, against the Research Committee's recommendations.

¹ See *The Accountant*, August 29th, 1953, at page 242.

¹ *The Accountant*, September 19th, page 333.

MANAGEMENT ACCOUNTING FOR PUBLIC ADMINISTRATION

by LAWRENCE W. ROBSON, F.C.A., F.C.W.A.

Introduction

IT gives me great pleasure to discuss the place of management accounting in the field of public administration, because I hold the firm belief that management accounting has an important contribution to make to the economic well-being of this country, including that large slice comprised in those activities defined as public services.

The accountability of public bodies is assuming an ever-increasing importance with the growth in size and scope of these bodies, and it is being increasingly accepted that accountability means something more than the containment of expenditure within the bounds of voted funds. It calls for proof of the production of satisfactory services at the lowest cost.

It seems to me that there is bound to be a growing impetus to the swing away from the earlier conception of sanctioned funds and yearly estimates based on previous years plus a little something for increased wages and material costs. The need is for a sharper tool of control in the form of operating budgets, and standards developed on similar lines to those used in industrial and commercial concerns to ensure effective management of public bodies.

My intention is firstly to outline briefly the general conception of management accounting and then to consider its applications in the public services.

Management Accounting in General Terms

Much has been said and written about management accounting in recent years so that it is probable that most people have at least a fair idea of what it is all about. But it is probably worth while at this time to re-state the guiding principles for consideration in the context of our subject.

Management accounting may be described as a comprehensive scheme for reporting on all the activities of a concern in line with certain established budgets and standards to provide effective information at frequent and regular intervals for all levels of managerial and policy-making responsibility.

Although other techniques are comprised within the general definition, the core of management accounting clearly lies in a sound scheme of budgetary control developing into a complete or partial set of standard costs.

The main steps involved in setting up such a scheme may be stated briefly as follows:

(1) *Setting budgets and standards*

(a) Decide on the sections of an undertaking to be

treated as centres for the exercise of control through budgets—these sections must be clearly delineated as being under one person's authority and responsibility.

- (b) Determine the appropriate unit of output or service in each case.
- (c) Assess the expected or required level of output or standard of service.
- (d) Set up standards for the rate of output—that is the amount of output expected in a given time.
- (e) Prepare budgets for all the expenditure necessary to achieve the output required.
- (f) Allocate general expenditure not specific to any one section to the operating sections on an equitable basis.
- (g) Bring together the budgeted output and expense for each section to obtain a cost rate for the agreed unit of output.
- (h) Specify the materials and processes for each product and by applying the appropriate cost rates and material prices construct a standard or predetermined cost in each case.

(2) *Recording actuals*

- (a) Set up a code of accounts to ensure correct classification for strict comparability with the budgets.
- (b) Record in each section the physical output and the actual time absorbed in achieving the output.
- (c) Record actual expenditure against the appropriate section and classify under the accounts' code.

(3) *Comparisons*

- (a) Compare the actual output in terms of the agreed unit with the expected output or unit of service.
- (b) Compute the expenditure that should have been incurred to produce the actual output, i.e. adjust the basic budget for variable or semi-variable expenses in line with output or other agreed factors.
- (c) Compare the computed expenditure with the actual amounts incurred.

(4) *Presenting information*

Set out the results of these comparisons in a logical and readable manner, having always in mind the concepts of 'pyramid presentation' and 'control by exception'.

I think you will agree that basically the steps involved in such a scheme are simple and straightforward enough, though their application in particular circumstances may call for a considerable degree of technical skill.

It is perhaps hardly necessary to repeat the now well-known advantages to be derived from the introduction of a budgetary control scheme, and I have thought it possibly more helpful to indicate the main steps involved.

Fixing Responsibility for Expense

However, it may be of interest to stress one or two features that are not always appreciated but which can be quite potent factors in achieving improved results in an organization.

The process of considering and deciding on the clearly defined management divisions for budgeting has the inevitable effect of bringing to light gaps or overlapping situations in the management structure, as a control scheme cannot operate successfully without a very clear delineation of responsibility, together with an equally clear delegation of the required authority. It is a common experience to find quite striking anomalies in the lines of organization, and whilst it is true that personalities can sometimes be effective in spite of a lack of clarity in the structure, it is generally found that tidying up the lines of responsibility and authority is followed by a marked increase in the effectiveness of management and a reduction of friction between people who were not clear as to their precise relationships.

The detailed investigations and forward thinking that are implicit in the budgeting process frequently lead to a reconsideration of operating methods or of general policy with lasting benefit to an organization. Indeed, it has been said with some truth that considerable advantage can be derived merely from this budgeting process, though naturally the subsequent use of these budgets as an instrument of control is the ultimate aim.

A more subtle feature, but one which may in the long run have a marked influence on the general well-being of an organization, is the increasing degree of co-operation and co-ordination which is bound to follow when managers, technicians and accountants get together, as they must do, to set the framework and fill in the details for a budgetary control scheme. If a scheme is to be effective, the initial co-operation at the budgeting stage must be continued and developed through regular meetings at which operating results are discussed with frankness and a genuine desire to improve matters. Quite astonishing results can follow from such discussions once the people concerned understand one another's language and outlook, since under those conditions it is possible for decisions to be reached through what Mary Parker Follett called 'the law of the situation'.

It will probably be agreed that all of these features are just as appropriate to the operation of any kind of public service as in other types of enterprise.

Applications of Management Accounting in the Field of Public Service

Although the modern form of budgetary control undoubtedly stemmed from the original conception of a governmental budget, i.e. a forecast sum of money,

its underlying principles are now far removed from the older form.

Government and other budgets are produced primarily to form the basis for a levy on individuals and corporate bodies, and are of little value for purposes of management, while the type of budget we want to consider tonight is essentially designed to be an instrument of management.

The motives for control of costs in a public service are different from those that hold sway in a commercial undertaking. In the former, the profit motive, so all-compelling in the latter, is absent, but there can be no doubt about the need for greater efficiency to reduce the burden of contribution by the public. The necessity for providing adequate service may overlay consideration of the total cost, but there can never be any excuse for failing to be 'cost-conscious' about the relation between the results achieved and the administrative costs of achieving these results.

The kind of information necessary for successful operation, and that is also possible of attainment, will vary somewhat with the type of service concerned, and it seems that the main types may comprise:

- (1) Government departments or other agencies that buy and sell commodities.
- (2) A manufacturing business run by a local authority, e.g. joinery works for housing projects; body building for transport undertaking.
- (3) A service, e.g. public transport, which has its own direct revenue, and aims, taking one year with another, to break even.
- (4) A service which is financed out of public funds raised by levy and which is utilized by all sections of the populace, e.g. refuse collection.
- (5) A service which is publicly financed, but which is utilized by only a section of the populace, e.g. public libraries.
- (6) Internal service departments, e.g. maintenance of transport, which provide a service for a main operating department.

It is surely true that in certain cases, notably in (2) and (3) above, the arrangements for control through management accounting will be exactly the same as for a commercial undertaking - it is not the considerations of ownership or finance which primarily govern the type of accounting to be used, but the character of the enterprise.

However, in many types of undertaking it would clearly be foolish to attempt to apply a full scheme of budgetary control and standard costs, and we have to consider how best to make use of some of the techniques to provide a useful management tool. We are assisted in these attempts because it is a fundamental of standard costing that the emphasis is on the cost of a process or service and not on the unit cost of the final product, though this naturally follows by a process of 'building block' construction. It follows, therefore, that the best line of approach in many sectors of public administration is to take the constituent functions and to set up performance standards and related costs for each of them.

There is a vital difference in mental outlook between budgeting for next year's expenditure by reference to current spending plus a safety 'cushion' and the establishment of the real work load to be met at a predetermined standard unit cost for that work to give the budgeted service required.

In the latter approach there are four steps involved:

(1) Determine the expected demand for the service to be produced, expressed in the appropriate unit of output, e.g. one of the functions of a streets department is to keep the roads swept. In this case the unit of output could be per 'mile of road swept', and the expected demand for the service would be established by reference to:

(a) The agreed standard of cleanliness calling for, say, one sweeping every four weeks modified for special seasonal effects such as autumn, when the leaf problem required more frequent effort in certain streets.

(b) The total miles of streets to be swept, anticipating in the estimate roads to be added during the coming year.

(2) Determine the labour force and equipment needed to carry out the expected amount of work. In order to do this it is necessary to:

(a) Decide on the best available methods of doing the job and the equipment required (subject always to restrictions on capital expenditure).

(b) Establish performance standards for the various methods adopted to tackle different sections of the work – these standards should be carefully set up so as to eliminate any wasteful practices that may have existed and should constitute a task aim that will call forth a good effort from all concerned without being so elevated as to seem impossible of achievement.

(3) Set up budgets, under appropriate headings, which are clearly defined, to cover all the expenditures required to equip and maintain the agreed establishment. Budget headings can be in as much detail as may be desired, but as a minimum it is suggested that these should distinguish between: labour; materials and supplies; equipment repairs; overhead expenses (administrative, clerical, etc.); depreciation. If these budgets are to be of real use in managing the department it is essential that they should be flexible budgets and that in setting them up considerable thought should be given to the manner in which any item of expenditure may be expected to behave if the amount of output is less or more than the anticipated figure. It may be that the expenditure should vary precisely in conformity with the volume of output or units of service achieved, or that within a wide range of output it remains the same, or that its behaviour lies between these two extremes – each item has to be studied most carefully before a decision is reached.

(4) Bring together the expected output or units of service and the budgeted cost of that output to compute a predetermined unit cost for the service

to be provided. As a result of this process we now have a set of figures that serve several vital purposes:

(a) It provides a sound basis on which to go forward and ask for funds to be appropriated in order to provide the service.

(b) It establishes standards of performance and expenditure against which to compare actual events as recorded in ensuing periods so that off-standard working may be corrected as far as possible.

(c) It more readily enables comparisons to be made for like services in other departments or in other geographical locations in the same department, since the structure of the unit cost is clearly set out.

If, in addition, each set of standards is visualized as having the words 'this can be improved' written boldly across the sheet, then the figures will be a constant challenge to the managers to attack methods and expenditures to find that cost reduction that is always there for those who are prepared to make the effort.

Control by Exception

Once the budgets are set up and the necessary accounting arrangements made to provide periodic summaries of physical performance and actual expenditures, it is possible to produce statements that show up the significant features of the department's operations – the method of arriving at these figures is an accounting function and the details need not concern us here.

These performance reports will set out the work units accomplished multiplied by the standard unit cost to give the total standard cost of each function as compared with the actual cost of operations. Variances from expectation will be segregated under such headings as: material prices; efficiency; volume and expenditure.

Before such reports are presented, the variances will be investigated to find the root causes which will lead to suggestions for remedial action.

The really vital part of the whole scheme of things now emerges – the need for having a formal and forcefully directed programme for studying results and taking action accordingly.

Information a Basis for Action

The essentials are:

(1) Regular and prompt consideration of the operating statements – regularity to avoid this study being swamped by other calls on executives' time, and promptness to enable discussions to be held while facts are fresh in the minds of all, and to enable corrective actions to be taken without expensive delay.

(2) Procedures designed to get action to correct poor results or to consolidate favourable trends. There must be absolutely clear allocation of responsibility for action and an adequate follow-up to see that it is taken.

(3) A responsible and balanced manner of handling

the operating results, whereby the statements are issued firstly to the sectional managers 'down the line' so that they can make their inquiries before being called upon to answer for the results, and in which there is avoided the 'post-mortem' atmosphere in which scapegoats are sought and blame heavily laid on.

(4) Prevention of boredom through familiarity by selection of special features from time to time for a concerted attack instead of ploughing regularly through all the details.

(5) The elimination from statements presented to supervisors at various levels of those factors over which they can have no control, so that attention is focused on the area of their real authority and responsibility.

I should like particularly to stress the point that budgets and standards are, or should be, dynamic, and that the not uncommonly expressed view that a control scheme limits flexibility of action is quite false to the atmosphere of a properly run scheme.

Discussion of results in management meetings is concerned not only with deviations from the agreed budgets and standards, but also with inquiry into the standards themselves in a constantly questioning manner, to find improved methods and even better control.

It is especially important from this point of view and from the general management angle to see that costs due to high-level policy decisions are segregated so as to allow normal trends to stand out clearly.

Cost Reduction

A very useful device in this connection is to set up a 'cost reduction committee' comprising the top administrators, technical superintendents and a financial or budget officer.

This may be an offshoot from an already established budget committee or a separate entity, but in any case it should be invested with the authority to inquire into any department's procedures and costs and to suggest and develop improved methods and devices for reducing costs. It may be necessary to establish a methods and systems section to make detailed studies of work loads, methods, equipment and staffing for the establishment of sound standards.

A frequently raised objection to the introduction of a budgetary control scheme is that the existing accounting analysis differs in form from that required to operate the control scheme. This arises because the well-established form of accounts usually groups expenditure under subjective headings, while the essence of the more modern techniques is their emphasis on functions and responsibilities. It is, of course, a valid objection if it is only the work involved in making a change that is considered - however, it must surely be admitted that the statutory or commonly used form of accounts is practically useless as an aid to management, and that a regrouping of the actual figures, even without budgets for comparison, would by itself bring advantages in day-to-day use of the figures. One of the first steps in

setting up a scheme, therefore, is the creation or extension of an accounting code that will permit of the collection of expenditures against operating departments (either directly producing the final product or indirectly contributing a service to keep the producer's department in being), and under those classifications of expense that are to be used in developing budgets.

There are various methods of dealing with the standards and actual figures in the accounting records of the organization, but we will not deal with these here - they can safely be left to the financial staff.

It may be of interest to note a fairly recent development in the financing and operating methods being adopted for certain sections of the U.S.A. Defense Departments.

In a recent article by Melvin A. Zucker, in the *N.A.C.A. Bulletin*, attention is drawn to the operation of 'industrial funds' established under 1947 legislation whereby a revolving fund is set up to finance the payment of operating costs and is reimbursed through the prices charged for the products or services rendered to its customers who normally are other Government departments. It is considered that prices established on the basis of production costs and the budgeting of customer departments' requirements on the basis of these prices shows whether the operating results of an activity are good or bad, and will lead eventually to the development of a performance type budget for the Department of Defense as a whole. Specific examples of substantial savings are quoted as a result of the combined efforts of the provider and the user of the service working to budgets and making real efforts to keep costs down and to obtain value for money spent.

In addition to routine operations, public bodies are concerned from time to time in capital projects of one kind or another, and while the arrangements for the control of such expenditure within the sanctioned sum are well known and established, the use of work standards in this connection may be worthy of note. Test studies and accumulated data over many such projects may enable the supervisors of such work to establish work standards of high accuracy for many of the elements and operations involved, and these standards, when allied to current wage rates and material prices, will be of great assistance in achieving reliable figures for the sanctioning of funds as well as a yard-stick against which to measure the actual performance and cost achieved.

There are other cases in which performance budgets and standard costs may usefully be applied to certain sections of a department's work even though they may not be readily applicable to the whole - for example, in office functions. Some careful studies followed by the setting of standards for the routine office processes provide a considerable degree of control and throw up anomalies in loading and staffing that otherwise would remain as an unseen drag on effectiveness, and therefore a cause of excessively high costs.

Once the right mental attitude has been developed through an initial application of budgetary control and work standards to some part of an authority's work, it will be found that numerous other applications will suggest themselves, and many examples could be discussed in a longer paper.

Conclusion

I have endeavoured to set out my views on the concept of management accounting as applied in public administration and to indicate some of the benefits, both directly seen and others, less tangible, but equally significant, that may arise from the adoption of the best available practice.

I hope also that I have managed to convey to you my own strong belief that along the lines I have indicated may be found the answers to some of our present-day problems in controlling effectively the organizations in the field of public administration.

It is, of course, not my intention to leave the

impression that nothing is being done already on these lines in public authorities. The best of these, as in the best of the commercial and industrial undertakings in this country, already make use of modern techniques in control, but I am convinced that there are a very large number of organizations in the public administration field that have as yet barely scratched the surface on these matters.

The trend recently has been for an ever-growing slice of the nation's spending to be handled through public bodies of one kind or another. This factor, when allied to the very high tax rates borne by the populace and the change in the commercial climate from a sellers' to a buyers' market, surely means that more and more will the taxpayer seek assurance that his money is being spent effectively.

Intelligent action can proceed only from a clear appreciation of the factors in any situation, and I am convinced that management accounting in the realm of public administration has a vital part to play in maintaining and improving our standard of living.

WEEKLY NOTES

Certified Accountants' University Scholarship Scheme

The Council of the Association of Certified and Corporate Accountants has decided to institute a university scholarship scheme for the benefit of certified accountants and students of the Association who have passed Section I or Section II of the Final examination.

The scholarship will be tenable at the London School of Economics to enable the recipient to read for the degree of B.Sc.(Economics), specializing in accounting or other related subject approved by the Council, or for a higher degree similarly approved.

The value of the award will be up to £200 per annum with a maximum total grant of £600 during the currency of any one scholarship. The Association is prepared to consider making the first such award with effect from the Michaelmas term, 1954, and one additional award each year thereafter.

The Association will recognize for this purpose either the full-time day course at the London School of Economics or the evening course, though in the latter case preference will ordinarily be given (other things being equal) to candidates who are prepared to attend the full-time day course during their last year.

Estate Duty Valuation of Unquoted Shares: *In re Holt*

The case of *In re Holt*, to which reference was made in our issue of December 5th last, is now reported in *Taxation Reports*, Volume 14, No. 62.

It will be recalled that in this case the Court determined the value of the shares at the date of the death at 19s per share, although a much higher value had been suggested by the Estate Duty Office in the

earlier stages of the negotiations. On the other hand, a lower value had been submitted on behalf of the legal personal representatives. It seems clear from the judgment of Mr Justice Danckwerts, copies of which are now available, that he found himself in some difficulty since he had to deal with certain hypothetical factors which would affect valuations of this kind, and then the judge went on to say:

'The result is that I must enter into a dim world peopled by the indeterminate spirits of fictitious or unborn sales; it is necessary to assume a prophetic vision of a prospective purchaser at the moment of the death of the deceased and firmly to reject the wisdom which might be provided by the knowledge of subsequent events.'

A number of chartered accountants were called as witnesses for both sides and Mr Justice Danckwerts said:

'In my task I have had the assistance of a number of experts on each side, who differ in their opinions in the manner in which experts normally do.'

It is not surprising, therefore, that there should be marked differences of opinion in arriving at a valuation of shares in the light of conditions that are hypothetical and not practical. This is particularly the case where the persons carrying out the negotiations are all men of much practical experience.

It has been suggested to us that the words used in our leading article of December 5th last might be read as a reflection on the officers of the Estate Duty Office. We have, of course, the highest regard for officers of the department, who have to carry out the difficult task of interpreting the law relating to valuations in the light of the difficulties to which Mr Justice Danckwerts referred.

New Currency Record

The fiduciary issue is one of those economic indices – there are several others such as prices and taxation – which always go up at certain seasons but never come down. The Christmas fiduciary note issue, which measures the change in the public's demand for notes in one period as against another, has gone up to a new record level. This week the currency demand has risen to £1,632 million compared with £1,550 million at the same time a year ago. In 1938 the corresponding level was £505 million.

Christmas shopping is generally thought to have been slow to get under way this year, due in part to the very mild weather which has delayed the quickening of the Christmas spirit – one had almost said damped it. On the other hand there has been higher industrial output and employment this year than last and it may have been these influences which have enabled the note issue to live up to its reputation of recent years and set up a new record every Christmas.

Roads – A Beginning

It was announced in the House of Commons last week that the expenditure on roads is to increase from £5 million a year to about £14 million or £15 million in 1957–58. Total expenditure over the next three years will be of the order of £50 million and the level achieved over this period is to be maintained.

For some time to come it is clear that an annual sum of this order, notably higher though it may be than has been allocated from the Road Fund in recent years, can still do no more than a patching up job. Thus, the schemes announced to be put in hand in the next year or two are aimed at removing some of the more notorious black spots in localities with heavy traffic or on the trunk roads which bear heavy lorry traffic.

Perhaps the principle of higher outlay now conceded and the higher priority given from now on to roads is the important issue. The principle conceded, gradually larger sums may be spent. At the moment the higher rate of expenditure will do no more than slow down the rate of decay of the roads, not build them up as a capital asset. The task of doing this is an enormous one and the money capital available to finance it desperately small.

Colonies Sterling Assets

In the crises which have afflicted the sterling area since the war, the colonies have maintained an outstanding reputation as earners of hard currency. In the latest crisis at the latter end of 1951, the colonies played an indispensable role in slowing down the rate of drain on our dollar and gold resources.

In a White Paper published this week a useful break-down is given of the colonies' sterling assets. It is pointed out that between 1949 and 1952 these assets increased from £670 million to £1,222 million. A good deal of this advance was due to the boom in commodity prices after the Korean war started. In the earlier years much of this surplus was due to

Government and public savings and also to the inflow of investment from overseas. In 1950 and 1951, however, the flow of overseas investment in particular had been seriously reduced and in its place there had developed a large balance of payments surplus for the reasons already given.

The split-up of the total shows that 36 per cent of these assets is accounted for by funds held in London for convenience by colonial governments. A further 30 per cent is held by the various currency authorities; 12 per cent is held by the marketing boards (these handle the large flow of exported produce such as cocoa), and a final 22 per cent is held by the banks.

The White Paper points out that the trend of commodity prices is downwards and that these reserves will provide a valuable cushion for development schemes in the lean years and that in consequence colonial governments can plan their economic development with confidence in the future – which was often not the case in pre-war days. It is of course also true that the more prosperous these territories become the larger their reserves will have to be. Growing assets breed the need for growing assets if prosperity is to be increased.

Coming Meat Conferences

It has been announced that talks will take place in February between the British and New Zealand Governments on the future of the meat contract which at present governs the terms on which New Zealand exports meat to this country. The talks will coincide with discussions between representatives of this country and Australia on the same subject.

Both countries have fifteen-year agreements with this country by which the United Kingdom takes the export surplus from each at agreed prices. Prices have been subject to annual review with limitations on the amount which they can move in either direction at any one time. This provision was originally written into the contracts to protect this country from the effects of world inflation and also at a time when there was a shortage of meat for export. Until recently this country was in fact in a very weak bargaining position with its suppliers, for whereas their export markets were becoming less important as their domestic consumption of meat increased (this has also applied to Argentina), this country could not keep itself supplied with meat from its own farmers.

Now the situation has changed somewhat. Meat trading is being handed back to private hands in 1954 and with that comes a return, up to a point at least, to a world-free market for meat. This is a situation which neither Australia nor New Zealand can view without mixed feelings. In the past there has been a considerable body of opinion in both countries which favoured free trading as against a fifteen-years agreement. Now with the prospect of an end to the rise in meat prices and the fifteen-years contracts operating against them while yet offering a modicum of security for their export sales they are in something of a quandary.

REVIEWS

Men of Mathematics
Volume I

by Professor E. T. Bell

(Penguin Books Ltd, Harmondsworth, Middx.
2s 6d net)

First published in 1937, Professor Bell's delightful book on the lives and achievements of the great mathematicians of the world is now available in the Pelican series. Those who have little knowledge of mathematics and are interested in people rather than in ideas, need have no fear that the going will be heavy. The author has the human touch and, while full mention is made of the scholarly attainments of his chosen subjects (some three dozen in all), the accounts he gives of their sometimes involved private lives are models of insight, understanding and good humour.

Professor Bell puts Archimedes, Newton and Gauss in a class by themselves among the really great mathematicians. Everyone knows of the first two but the third will be associated by many only with the war-time technique of 'de-gaussing', which is an application of one of his numerous discoveries. The runners-up include Descartes, Pascal and Liebnitz and a curious omission from the selection is John Napier of Merchiston, the inventor of logarithms, who is referred to only once in the text. David Hume said that to Napier 'the title of great man is more justly due than to any other whom Scotland produced', and although this judgment was made two hundred years ago, it is probably still valid.

An Outline of Statistics
Fourth Edition

by Samuel Hays, O.B.E., B.Com.(Hons.), F.I.S.
(Longmans, Green and Co Ltd, London. 10s 6d net)

There are times, Lady Bracknell's daughter said, when it becomes more than a moral duty to speak one's mind. It becomes a pleasure. The same might be said about learning statistics with the help of Mr Hays. The support of the science is so often invoked in current affairs that it is the moral duty of every conscientious citizen to acquire an understanding of its range and limitations. If he does so by reading *An Outline of Statistics* then it becomes a pleasure.

Since the book was first published in 1937, there have been many developments in statistics but the fundamental principles have remained constant. Mr Hays gives a most lucid explanation of these and then proceeds to demonstrate how they are applied in everyday science and commerce. His narrative is, as far as possible, non-technical and is excellently supplemented with tables and diagrams and there are exercises (with solutions) on the contents of each chapter.

The Cost of Industrial Movement
by W. F. Luttrell

(Cambridge University Press, London)
(for the National Institute of Economic and Social Research. 18s net)

This book is the result of an investigation into the relative manufacturing costs of branch factories compared with those of the parent units, mainly in the boot and shoe industry. The tentative conclusions (the final work is to follow) are interesting, and cast some doubt on the wisdom of the policy—followed since the war by a number of concerns in other industries, sometimes with Government backing—of setting up branch factories merely to utilize a local surplus of labour.

It is unfortunate that business activities function so much on an empirical basis that exact information of the kind contained in this study is seldom available. Among other things the study indicates the need for careful classification of expenditure—not to mention the difficulty in measuring output—in undertaking such investigations.

Key to Profits Tax
Third Edition

Edited by Ronald Staples

(Taxation Publishing Co Ltd, London. 7s 6d net,
7s 9d post free)

Since the second edition of this excellent work was published, the excess profits levy has, as it were, come and gone, leaving some radical alterations in profits tax itself. The third edition deals with these changes, and notwithstanding its modest price reproduces all the relevant legislation. Although the work covers some 250 pages, the thumb index and summaries make reference a speedy matter.

Faster Than Thought
A Symposium on Digital Computing Machines
Edited by

Dr B. V. Bowden, M.A., Ph.D. (Cantab.)
(Sir Isaac Pitman & Sons Ltd, London. 35s net)

It is not possible to review the history of digital computing machines without mentioning Charles Babbage who spent his life and fortune in the middle of last century in an unsuccessful attempt to produce the first one. Dr Bowden pays full tribute to this unhappy genius and gives an interesting account of Babbage's intellectual association with the gifted Lady Lovelace.

The symposium, to which many experts have contributed, is in three parts. The first deals mainly with the theory of computing machines. The second gives descriptions of the principal machines in existence including those at Manchester university, Harwell and in America. The third, and perhaps to

the layman the most interesting, section of the book, considers the uses to which the computers may be put. These are so diverse and ingenious that the more timid reader may be glad to have Dr Bowden's assurance that the machines do not think for themselves. The power to reason is the principal attribute of which man still has a monopoly among the various orders of creation and, as he has not yet learned to use this gift to the best advantage, any attempt to diffuse it among machines would certainly be premature and probably disastrous. Dr Bowden, who has an engaging sense of humour as well as a deep knowledge of his subject, wisely confines the scope of his exposition to an account of the machines and their applications. By keeping to the practical plane, he avoids laying himself and his learned colleagues, 'open to charges of anthropomorphism.'

SHORTER NOTICES

THE LEGAL ASPECTS OF BUSINESS (Third edition), by H. R. Light, B.Sc.(LOND.), F.C.I.S. (Sir Isaac Pitman & Sons Ltd, London, 15s net.) The purpose of this book is first to enumerate the general principles of English law and, secondly, to show how they apply to the everyday commercial life of the country. Particular attention is paid to the law of contract, in the scrupulous observance of which our business well-being largely depends. Mr Light's task is to instruct but in doing so, he also entertains, for his style is as readable as his knowledge is exact.

GENERAL COMMERCIAL AND FINANCIAL KNOWLEDGE FOR EXAMINEES (1953 edition), by E. Miles Taylor, F.C.A., F.S.A.A. (Textbooks Limited, Harpenden, Herts. 12s 6d net.) The author begins by telling students how to address letters and ends with the intricacies of the law of agency. In between, there is a vast store of information, useful both for the examination room and daily business, assembled in the most logical and readable form.

RANKING, SPICER AND PEGLER'S MERCANTILE LAW (Ninth Edition), by W. W. Bigg, F.C.A., F.S.A.A. and C. N. Beattie, Barrister-at-Law. (H. F. L. (Publishers) Ltd, London. 21s net.) Although there has been no new legislation of major importance since 1948, the editors have used the occasion of a new edition to review and revise the entire text of this well-known work as well as to incorporate in it all recent relevant case law. The book has also been reset and appears now in a more compact, and incidentally less expensive, form than before. The tables of statutes, cases and contents and the index remain all that such reference guides should be.

GREEN'S DEATH DUTIES (Second Cumulative Supplement to Third Edition) by H. W. Hewitt, LL.B., of the Estate Duty Office. (Butterworth & Co (Publishers) Ltd, London. 5s net.) Since the appearance of the last supplement to this leading text-book on estate duty, there have been some very significant decisions, notably on the treatment of insurance policies and on the question of the allowance for

continuing annuities on the death of a tenant for life. The tendency of House of Lords decisions to upset long-standing fallacies brings an additional uncertainty to the law, so that the risks of relying on an out-of-date text-book are increased. The new supplement brings the reader to August 1st, 1953.

UNDERHILL'S LAW RELATING TO TRUSTS AND TRUSTEES. (Third cumulative supplement to the Tenth Edition) by M. M. Wells, M.A., Barrister-at-Law. (Butterworth & Co (Publishers) Ltd, London. 5s net.) This new supplement brings the main volume to September 1st, 1953, the additional matter being of substantial importance. Subjects dealt with include the treatment of 'interest' on national savings certificates, the power of the Court to sanction a deviation from declared trusts, and the right of a trustee to remuneration.

RECENT PUBLICATIONS

THE HOSPITALS YEAR BOOK, 1953-54. vii + 1088 pp. 10 x 6½. £2 2s net. The Institute of Hospital Administrators, London.

THE FINANCE ACT, 1953. A summary for engineers. 7 pp. 8½ x 5½. 3s 6d net. Engineering Industries Association, London.

THE LUMBERYARD AND MRS BARRIE, by Jane Barrie. 224 pp. 9 x 5½. 10s 6d net. Hammond, Hammond & Co Ltd, London.

THE LIVELIHOOD OF MAN, by Honor Croome, B.Sc.(ECON.), and Gordon King, B.Sc.(ECON.), B.COM. x+317 pp. 7½ x 5. 10s net. Christophers, London.

INTERNAL AUDITING, by W. W. Bigg, F.C.A., F.S.A.A., and J. O. Davies, F.C.A., A.C.W.A. ix+175 pp. 9 x 5½. 18s net. H.F.L. (Publishers) Ltd, London.

INCOME TAX LAW AND PRACTICE (COMMONWEALTH), by N. E. Challoner, LL.B., A.C.A.(AUST.), and C. M. Collins, B.A., LL.B., Barrister-at-Law. xliii+1,092 pp. 10 x 7. £7 7s net. Sweet & Maxwell Ltd, London.

FARMING RECORDS AND ACCOUNTS, by James Wyllie, O.B.E., B.Sc.(AGRIC.), N.D.A.(HONS.). xiii+310 pp. 9 x 5½. 30s net. Butterworths Scientific Publications, London.

DIE ORGANISATION, by Pd. Dr. Karl Janda. 75 pp. 9 x 6. S.38. Institut für Organisation und Revisionswesen, Vienna.

SIMPLE COSTINGS IN THE SOFT DRINKS INDUSTRY. 33 pp. + 9 specimen forms. 9 x 6. 21s net. The National Association of Soft Drinks Manufacturers Ltd, London, W1.

ILLUSTRATIONS TO INCOME TAX, Supplement to the Fifth Edition, by A. S. Silke, M.COM.(HONS.) (CAPE TOWN), C.A.(S.A.). 44 pp. 9 x 6. Free. Juta & Co Ltd, Cape Town and Johannesburg.

HARRISON ON DEATH DUTIES, Second Edition, First Supplement (to September 1953). 22 pp. 8½ x 5½. 5s net. Stevens & Sons Ltd, London.

THE LAW AND PRACTICE RELATING TO EXEMPT PRIVATE COMPANIES, by A. J. Balcombe, M.A., Barrister-at-Law. xiii+147 pp. 9 x 5½. 15s net. Jordan & Sons Ltd, London.

INCOME TAX PRINCIPLES, by H. A. R. J. Wilson, F.C.A., F.S.A.A. ix+157 pp. 9 x 5½. 12s 6d net. H.F.L. (Publishers) Ltd, London.

THE FOREIGN EXCHANGE REGULATION ACT, by S. R. Vakil, B.A., LL.B., Attorney-at-Law. viii+339 pp. 9 x 6. Rs10 net. N. M. Tripathi Ltd, Bombay.

L'INTERPRÉTATION DU BILAN, by E. G. Snozzi. xv+311 pp. 8½ x 5½. 1560 Frs. Dunod, Paris.

WHITAKER'S ALMANACK, 1954. Complete edition 1,190 pp., cloth boards, 15s net; Shorter edition, 694 pages, paper bound, 7s 6d net; Library edition, bound in leather and with coloured maps, 30s net. J. Whitaker & Sons Ltd, London.

FINANCE AND COMMERCE

Having survived the fears concerning the railway wage position the stock-market has now largely succumbed to the falling away in business usually experienced at this time of the year. With the assistance of good dividends from leading industrial groups, however, the general tone of markets has been well held and given any further encouragement the upward trend should be resumed in the New Year.

Debenhams Accounts

We give this week the accounts of Debenhams Ltd, the big group in wholesale and retail clothing and drapery. This company's shares have been involved in a stock exchange speculation based on the expectation of a property revaluation which, it was said, would show a substantial excess over book values and in some way (various rumours were current) produce benefit to the equity holders.

Mr G. M. Wright, A.C.A., the company's chairman, deprecates the speculative market in the shares and gives his own view on the subject. It has been suggested, he says, that the freehold element in the company's property holdings which appear in the books at £17,312,068 and which, he now informs shareholders, are insured for approximately £31 million might be sold and leased back, the proceeds or a portion thereof being used for distribution purposes. But those who think on these lines, however, have little knowledge, he says, of the group's complex structure. 'They are prepared', says Mr Wright 'to sacrifice advantageous mortgage terms and substitute high rental charges with the attendant dangers of increased rateable values; they are prepared, furthermore, to saddle the member businesses of the group with heavy uncontrollable expenses *in perpetua*.'

Rateable Values

There was another suggestion, Mr Wright says, that the group's properties might be severed from the trading assets and a separate company formed. This was no new idea to the directors, who had already investigated the possibility of such a course with a view to administrative convenience.

Mr Wright reminds shareholders, however, that the formation of a separate company and the transfer to it of substantial assets would involve a considerable expense without altering the group's earning power. Such a scheme, he maintains, is not worth while unless it would be of benefit to the group indirectly, for instance, in connection with a financing programme.

The board's policy therefore is to 'continue to conduct the affairs of your company in the best interests of the large majority of the shareholders, who', Mr Wright believes, 'rightly expect a progressive return on their investments coupled with the maintenance of their security'.

Mr Wright's point about the 'attendant dangers of increased rateable values' is one worth pondering

over. Those who follow the current fashion of consolidating capital profit by selling properties at today's higher values and then retaining a leasehold possession may find, that in the matter of rates, the last word has not yet been said.

Property Revaluation

There are certain interesting points about the property valuation on which the consolidated accounts of Prices Trust Co Ltd for the year to June 30th last are based. This is the holding company of the Prices Tailors business. The valuation of freeholds and leaseholds was made as at July 1st, 1952, and with the exception of leaseholds expiring prior to A.D. 2000 and valued at £665,255, it has been incorporated in the accounts. Capital reserves consequently include 'Surplus on revaluation of properties, £3,045,600'.

The valuation, it is particularly noted, included shop fronts which had previously been included with fixtures and fittings in the accounts of Prices Tailors, the operating company, and the written-down value of £102,133 in that account has been written off against the valuation surplus. Since June 30th, 1952, expenditure on shop fronts has been included with freehold and leasehold properties at cost.

The consolidated balance sheet now shows capital, reserves and surplus totalling £6,404,299 against £3,374,865, and this is after a stock reduction from £4,335,327 to £2,774,444. It was decided to reduce stocks by making substantial price reductions and the present figure, it is stated, is more in line with the normal requirements of the business. Largely owing to stock losses, there is a group trading loss of £24,805.

Clearer Form

Certain alterations have been made in the consolidated balance sheet of Atkins Brothers (Hosiery) Ltd, and the new form, states the chairman, shows more clearly the manner in which the capital is employed.

The alterations comprise the transfer of current liabilities to the other side as a deduction from current assets and the treatment of the income-tax equalization reserve separately from the future taxation account. The income-tax equalization reserve now appears under the heading of revenue reserves and finally within the capital, reserves and surplus. Below this is the reserve for future income-tax to make the total for that side of the balance sheet. The effect, as the chairman says, shows the position more clearly.

Money Market

Treasury bill applications on December 18th totalled £308,445,000 for the £250 million of bills offered. This was some £60 million lower than the previous week and the market obtained as much as 78 per cent of requirements at the maintained bid. The average rate was £2 2s 0.62d per cent. This week's offer is £250 million.

Consolidated Balance Sheet
of Debenhams Limited at July 31st, 1953, and Subsidiaries from Audited Balance Sheets at January 31st and July 31st, 1953

31/7/52	£	£	£	£	£	£	£	£	£
7,700,000									
6,750,802									
1,463,480									
2,804,309									
419,125									
3,591,074									
6,277,988									
15,028,790									
22,728,790									
3,571,361									
878,937									
4,450,298									
3,462,678									
1,012,618									
2,624,947									
1,002,448									
75,527									
2,256,622									
150,000									
99,488									
240,623									
340,113									
6,449,657									
£38,104,041									
Capital, Nominal and Issued (all fully paid)	£	7,700,000							
Reserves and Surplus attributable to Debenhams Limited									
Capital Reserves:									
As per schedule on page 101	£	13,584,115							
Revenue Reserves									
As per schedule on page 101	£	1,535,126							
Reserve for Future Taxation and Contingencies	£	3,257,204							
Profit and Loss Account Balance:									
Parent Company	£	438,915							
Subsidiary Companies	£	3,803,257							
		4,242,172							
		9,034,502							
		22,618,617							
		30,318,617							
Minority Interest in Subsidiaries									
Par Value of Preference Shares held by Outside Shareholders		3,571,361							
Par Value of Ordinary Shares held by Outside Shareholders, after adjustment for proportion of Reserves, Profit and Loss Account Balances and Goodwill applicable to such holdings		859,223							
		4,430,584							
Debentures and Mortgages (less held by a Subsidiary Company)		3,348,091							
Pension Funds		1,015,319							
Current Liabilities and Provisions									
Creditors		2,759,607							
Cash Creditors		930,945							
Deferred Repairs		103,405							
Taxation		1,549,366							
Provision for Stock Contingencies									
Proposed Dividends (less income-tax) Debenhams Ltd: Preference Dividends for half-year to July 31st, 1953 (since paid)		£104,225							
Ordinary Dividend - Final for the year to July 31st, 1953		412,500							
Proposed Special Distribution (tax free) payable out of Capital Profits		50,000							
		566,725							
		5,910,048							
		£45,022,659							
Fixed Assets									
Property Account - Freehold and Leasehold Properties at cost, valuation or at the net amount standing on the Company's Books on July 1st, 1948, and of the Subsidiary Companies appearing on their Balance Sheets prior to that date (less Sales, War Damage Compensation and Compensation for Property compulsorily acquired)		16,029,768							
(Subject to claims under War Damage Acts)									
Furniture, Fixtures, Plant, etc., at cost, valuation or at the net amount standing on the Company's Books on July 1st, 1948, and of the Subsidiary Companies appearing on their Balance Sheets prior to that date (less Sales)		4,408,205							
Goodwill Accounts less Minority Shareholders' proportion, including the differences between the values at which inter-company holdings of shares are taken as assets in the Balance Sheets and their Par Values		3,507,461							
		23,945,434							
Claims under War Damage Act, 1943, Part II (as agreed)		629,222							
Less Received on account		219,170							
		410,052							
Investments at cost									
Trade Investments		23,240							
Investment in Subsidiary Companies not consolidated		165,377							
(Note: - The Profits of these Companies to the date of the last Balance Sheets are all prior to Acquisition)									
Other Investments - Quoted (Market Value £67,872)		78,861							
Sinking Funds and Life Policies		228,662							
		496,140							
Current Assets									
Stocks		6,440,751							
Trade Debtors and Debit Balances		2,757,175							
Bills Receivable		9,234							
Cash Loans		117,442							
Cash Debtor for Sale of Investment in Scottish Drapery Corporation Ltd		1,221,480							
Current Accounts Suspense Account		208,569							
Cash at Bankers and in hand		2,497,764							
		13,252,415							
		£38,104,041							
		£45,022,659							

Notes.

- Estimated commitments for Capital Expenditure, £178,525.
- Current Assets and Liabilities in Dominion and Foreign Currencies have been converted into Sterling at the rates ruling on the Balance Sheet dates of the Companies concerned. Fixed Assets in Dominion and Foreign Currencies have been converted into Sterling at the rate ruling at the date of acquisition.

[Not reproduced. - Editor.]

CURRENT LAW

Mortgagee's Right to Possession

The Times for November 19th, 1953, gives an interesting decision of Upjohn, J., in *Lloyds Bank Ltd v. Oliver's Trustee and Another*. The bank were mortgagees of a flat charged by Mr G. P. Oliver by way of legal mortgage, containing the usual clause providing for the mortgagor to be the bank's tenant at will. Seven years later Oliver deserted his wife, who with her children remained in the house by virtue of an order under Section 17 of the Married Women's Property Act, made by Barry, J., the order restraining the husband from selling or disposing of the property so as to interfere with the wife's residence. The husband having been made bankrupt, the bank asked for possession of the flat in order to be able to sell and so reimburse itself in respect of his overdraft. The wife argued that her matrimonial status entitled her to residence and that she could not be ousted.

The learned judge held otherwise, that the wife had no irrevocable licence to remain in the matrimonial home. This was wholly contrary to the conception of marriage. Neither the husband nor his trustee in bankruptcy could prevent the bank from taking the step it wished to take and any rights which the wife might have had dated from long after the mortgage was created.

Fraud Alleged Against Company

Shipbreakers contracted with another company of shipbreakers and scrap metal merchants for the purchase of the 'remainder' of the hull of the *Iron Duke*. The purchasers declined to pay the balance on the purchase price on the ground that the sellers had fraudulently concealed material facts. The allegations of fraud were made against the seller company as such.

The Outer House of the Court of Session (Lord Birnam) held that there could not be relevant allegations of fraud against the company without specific allegations against the officers of the company. To prove the former it was necessary to prove the latter. Fraud was personal. He accordingly dismissed the action. (*Smith & Houston Ltd v. Metal Industries (Salvage) Ltd.*) (*Law Journal*, November 13th, 1953.)

Legal Aid Certificate: Winding-up

In *Re Parker Davies & Hughes Ltd (Solicitors' Journal*, November 14th, 1953), a legal aid certificate 'was granted in connection with the following proceedings, namely: to defence and counter-claim in' an action by the company against the assisted person 'and to enforce any order or agreement made in connection with the said proceedings'. The person assisted obtained judgment in his counter-claim and proceeded to present a petition for winding up, which petition was dismissed. The question for Roxburgh, J., was whether the petition came within the certificate.

Roxburgh, J., said that it did, though he thought that the question would have been difficult but for the decision in *Re a Company* ([1915] 1 Ch. 520). It was important that legal aid certificates should express provide if they were intended to cover winding-up proceedings. He accordingly decided the case against the petitioner.

Liability of Real Estate for Legacies

A testatrix directed that all her real estate be devised together with the residue of her personal estate, to her trustees upon trust for her daughter. By her codicil she left both the real, and the residue of her personal, estate to her trustees on trust for sale and conversion and to stand possessed of the net proceeds of such sale, calling in and conversion of any ready money in trust to divide the residue (after payment of debts) thereof equally between the daughter's two sons.

On her death, the assets, apart from the real estate, were not enough to meet the pecuniary legacies and the daughter claimed that the legacies were payable only out of the personal estate.

Vaisey, J., held that the testatrix by her codicil showed that she regarded her estate as a single indivisible entity and thus did not contemplate that the real estate should go solely to the daughter (*Re Timson (deceased), Harper & Others v. Timson & Others.*) (*Law Journal*, November 20th, 1953.)

Agency Commission

In *Christie, Owen & Davies Ltd v. Stockton (Solicitors' Journal*, November 14th, 1953) Slade, J., found for the defendant in an action brought for the recovery of commission in respect of the sale of his restaurant. The agreement instructing the plaintiffs to sell, provided for the payment of commission in respect of any completed transaction pertaining to the premises and that should the owner withdraw after having accepted an offer by a person able and willing to enter into a formal contract, the commission should be payable.

In due course, one H. agreed to buy for £2,800 subject to contract, but contracts were never exchanged.

Slade, J., stated that it had been held (in *Bennett, Walden & Co v. Wood* ([1950] 66 T.L.R. (Part 2) 3)) that 'offer' meant an offer capable of being immediately turned into a contract by unconditional acceptance which acceptance would result in a contract even though it would be unenforceable in the absence of a memorandum. *Graham & Scott (Southgate) Ltd v. Oxdale* ([1950] 2 K.B. 257) showed that an offer subject to contract was not the offer of a willing purchaser. To come within the commission agreement, there had to be a firm offer and acceptance from which neither party could withdraw. While sympathizing with the plaintiffs, therefore, he gave judgment for the defendants.

CORRESPONDENCE

Letters must be authenticated by the name and address of the writer, not necessarily for publication.

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

Westminster Abbey Appeal

— When midnight strikes on December 31st, 1953 becomes 1954, how many of us — looking over the past twelve months — will be thinking of the Coronation!

The most solemn and moving moment of the Coronation was that of dedication in Westminster Abbey, Britain's ancient Coronation church, resting place of kings, heroes, statesmen and men of genius. Most people are aware that the stonework of the Abbey is becoming dangerous, the result principally of the effect of atmospheric pollution. Sir Winston Churchill has twice stressed the need for funds in these words — 'to save from decay and ruin Westminster Abbey'.

The campaign for this cause ceases on December 31st, though the fund will remain open. Good progress has been made this autumn, but there is — at the time of writing — still over £300,000 to be raised before the end of the year.

The first donations to the Abbey fund came from the Queen and members of the Royal Family, and before leaving for her Commonwealth tour, the Queen approved a gift of £100 to the Fund by Prince Charles as Duke of Cornwall.

As a last gesture in Coronation Year there is nothing very simple and appropriate I wish to recommend to all our members. Let us all help to finish the job in Coronation Year by giving full support to the 'odd shillings and pence' scheme, details of which are given in the leaflet accompanying this issue. I urge you to take advantage of this scheme and to instruct your bank to transfer all odd shillings and pence in your account at midnight on December 31st to the Westminster Abbey Appeal Fund. This does not, of course, prevent members from giving a more substantial donation.

Yours faithfully,
JAMES BLAKEY,
President,

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.
Moorgate Place,
London, EC2.

Company Director: Benefit in Kind

— I would appreciate the opinions of your readers on the following problem.

A small property-holding investment company owns a freehold building which is divided into four self-contained flats. The ground-floor flat is occupied by a director of the company who pays own rates, lighting and heating expenses.

Under Schedule A the building as a whole is assessed, but each flat has a separate annual value for rating purposes. It is not necessary from the company's viewpoint for a director to reside on the premises.

(1) Is it correct to assume that the director is assessable under Schedule E in respect of a benefit in kind?

(2) If it is so agreed, then in what manner should the benefit be valued?

(a) A fair proportion of the net annual value under Schedule A.

(b) Each flat not being separately assessed under Schedule A, then the gross or net values for rating purposes.

(c) The possible value of such flat if let in the open market.

Yours faithfully,
A.C.A.

[Presumably the company 'is assessable under Schedule A in respect of the' building within the Income Tax Act, 1952, Section 162 (3). If so, the company is deemed (for Schedule E purposes) to pay an annual rent equal to the amount of the assessment on the building 'as reduced for the purposes of collection', i.e. equal to the Schedule A net annual value (Section 162 (3)). A 'proper proportion' of the net annual value is to be taken for the flat in question (Section 161 (6)) and this is to be treated for Schedule E purposes as an emolument of the director (Sections 160 (1), 161 (1)). — Editor.]

Notification of Additional Assessments

SIR, — In view of the fact that the matter referred to in the attached copy of my letter to H.M. Inspector of Taxes (reproduced below — EDITOR) is of general interest to taxpayers, their accountants and the Inland Revenue, I suggest you may consider it worth publication.

H.M. Inspector of Taxes.

Dear Sir,

It appears from demand notes dated December 1953 that the above Schedule A assessments have been increased as from January 19th, 1953.

My clients have not yet received any notification and as this increase affects the income-tax assessments on the company under Schedule D I consider the Inland Revenue should notify the company of any alteration of property tax assessments expeditiously and without unnecessary delay. Companies and their accountants do not delay furnishing Schedule D computations to the Inland Revenue until the assessments are made twice in each year, and I consider it is therefore unreasonable for the Inland Revenue to withhold notices of alterations from January to December in these cases.

I understand you were notified by the rating authority in April 1953, and I consider, therefore, this delay of more than eleven months on the part of the rating authority and H.M. Inspector of Taxes is unreasonable, and is the cause of unnecessary work, both on the part of the Inland Revenue, companies and their accountants, in recomputing the agreed Schedule D assessments throughout

eleven months of the year and the appeals which may also be necessitated as a consequence.

I consider that this should be brought to the notice of the appropriate departmental heads with the suggestion that the organization is expedited. Kindly acknowledge.

Yours faithfully,

The eleven months' delay mentioned therein is not an isolated case but is quite general and is mainly caused by the fact that alterations to property tax assessments are only notified by assessment notices after the assessments are made only twice each year.

The eleven months' delay, therefore, caused readjustments to computations based on all financial years ended within the eleven months, which is obviously unreasonable and ridiculous.

Yours faithfully,

Birmingham.

HAY McDONALD.

Preferential Creditors

SIR, - The following extract from the March 1953 publication of *The Dalesman* may be of interest to your readers:

'At a shareholders' meeting of a textile company which had got into very low water one of the shareholders annoyed the chairman by his persistent questions and interruptions. Finally, to calm him, the chairman took him quietly on one side and gave him an assurance that he would be made a preferential creditor.'

'After the meeting the interrupter sought out the chairman and asked him what he meant by "preferential creditor".'

"Well, tha seés," said the chairman, "we hev nowt, and we nivver did hev out. Ah'm telling thee now; t'others weean't know fer a fortnet. That makes thee a preferential creditor."

Yours faithfully,

Birmingham, 20.

G. L. ARMITAGE.

Racing Pools: Audit

SIR, - I have been requested to organize the internal audit and deal with the audit of a new business to be formed in connection with racing pools. It is to be on a cash basis, the remittances to be sent to Scotland in the first place with the coupons, such remittances being banked in Scotland and subsequently transferred.

I should appreciate it if any of your readers could give me guidance on the following matters.

- As the audit is to be conducted from London, what method of control could be exercised? Would it not be easier to work in conjunction with local auditors in Scotland?
- What is the best method to satisfy the Customs and Excise authorities, to whom certificates regarding the pools duty will have to be submitted, and would such duty have to be submitted to the Customs offices in Scotland or England?
- What is the normal certificate to be given to the public subscribing, and how could the auditor cover himself in the event of defalcations beyond his control?

Yours faithfully,

STREATHAM.

Take-over Bids

SIR, - May I support Mr B. J. Davis (issue December 12th) in his contention that members of many companies are being misled by the neglect of economic principles in arriving at the results and values appearing in published accounts.

The outbreak of take-over bids is a symptom of this neglect.

Yours faithfully,

Dublin.

A. PAKENHAM-WALSLEY.

Agreement for Sale of Property

SIR, - We act as auditors to a property-dealing company, which is in course of purchasing a property from its managing director who, with his wife, a director, owns the whole of the shares in the company.

We have been informed that the property question will be the subject of an agreement for sale between the director and the company, but that there will be no date fixed for the completion of the sale. Apparently, this procedure is being adopted in order to avoid duty being paid by the company, as would be the case if a conveyance were executed.

We wonder whether or no, as auditors, in verifying the company's securities at the time of the preparation of the balance sheet, we should be justified in accepting the deeds and the agreement for sale in support of the company's title to the property. We understand that the legal position is, in such a case as this, that the company is without the legal title of the property, although it has an equitable title.

In the event of the company's ultimately disposing of the property to a third party, would the company avoid altogether the payment of stamp duty by reference to its original purchase, in the circumstances outlined? We imagine not, in which case the company, in addition to paying the duty in question, would presumably also be called upon to pay a penalty.

The views of your readers on the foregoing point would be appreciated.

Yours faithfully,

S.

Someone of Substance

SIR, - Within a few months of getting married, we were planning a holiday abroad and the need for my wife to get a new passport naturally arose.

After spending some time trying to think of someone whom we could ask to certify the application, I happened to remark that if we had not yet married I could have done so. Without a moment's hesitation my wife replied: 'But, surely, you have someone of substance!'

I hope that the Council may take this as further evidence of the need to publicize the status of chartered accountants!

Yours faithfully,

SUMMED UP.

LONDON STUDENTS' COLUMN

ews from the London Chartered Accountant Students' Committee

M. Sumner has been elected to fill a vacancy committee. He will also serve upon the pro-
s, debates and dance sub-committees.

Monday Evening Lectures

tures on general subjects have enjoyed much attendance during this last session. All of them
ell attended but there is still room for more
a larger hall is no problem. It is hoped that
sion it will be possible to provide tea and light
nent before lectures, at a small charge.

Christmas Dance

nce at the Royal Festival Hall Restaurant was enjoyed and those fortunate enough to obtain
were very grateful for the hard work put in by
anizers. It is hoped that the next dance will be
March 19th, 1954, at the Royal Empire Society.
e notice is given of this dance particularly for
efit of those who missed the Christmas dance.

Post-Intermediate Lectures

se of lectures has been arranged in conjunction
e department of business administration and
ancy of the University of London. The object
ectures is to stimulate thought in a wide field
untancy and to give a clear view of the basic
les underlying many problems found in practice

and in current argument. There are five lectures in
the course, one on every Thursday, commencing
January 7th, and post-Intermediate students will be
circularized. Notice of each week's lecture will appear
in *The Accountant* on the preceding Friday.

Discussion Group

Meetings will be held in the new year at the Society's
Library every Friday at 1 o'clock, starting on January 1st.

Debates in the next Session

It has been felt for some time that there is a real
demand for the establishment of a permanent debating
group as opposed to a debating course. Nevertheless,
those without any, or with very little, debating ex-
perience are encouraged to attend all meetings espec-
ially the opening one. In addition special meetings are
to be arranged for their benefit in which they will be
able to gain experience.

Annual Dinner

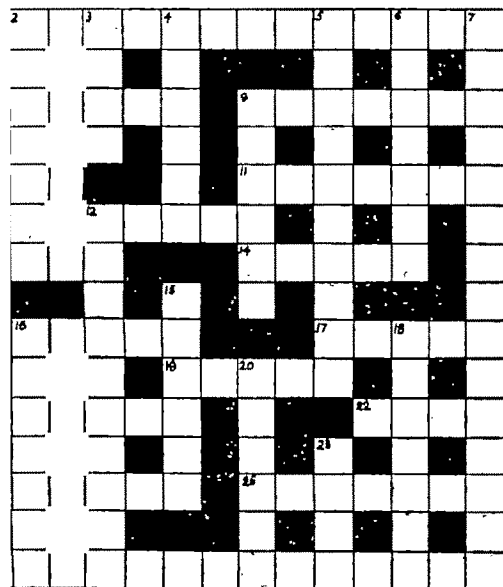
The Society held its annual dinner at *Grosvenor House*
on December 9th, when members were honoured by
the presence of many very distinguished guests.
A report of the dinner appeared in *The Accountant* of
December 19th.

It is hoped to publish the next 'London Students'
Column' in *The Accountant* dated January 30th, 1954.

ACCOUNTANTS' CROSSWORD

Compiled by KENNETH TRICKETT, A.S.A.A.

The solution will appear in next week's issue



ACROSS

ere a carting element in his work? (10, 5).
w they may increase or diminish (7).

9. His policy is a matter of life and death (7).
10. It is not sufficient to leave a space here (4).
11. It takes three to make this (7).
12. 501 in a country of rubber (5).
13. A profit once more! (5).
14. How every Chartered Accountant starts (5).
16. Not a straightforward graph (5).
17. Enlarged, but unfinished (5).
19. Always present in an emergency (5).
21. Person appointed (7).
22. Lawsuit (4).
24. May be marginal or public (7).
25. Appropriate (7).
26. Whereupon the legatee acquires his title (9, 6).

DOWN

1. Surf-riding, perhaps (6, 9).
2. Circular building once familiar to taxpayers (7).
3. The first entries in a creditor's account (4).
4. Not checked in full (6).
5. Responsible (10).
6. Serious pledge (7).
7. Difference between prices (4, 2, 3, 6).
9. Seize (6).
12. It turns in a different way (2, 8).
15. Limit of variance from coinage standard (6).
16. Syndicate (7).
18. Discharge or let again (7).
20. Alludes (6).
23. If upset, they would begin straight (4).

REPORTS OF PUBLIC COMPANIES

THE ACCOUNTANT ANNUAL AWARD

As already announced, *The Accountant* proposes to make one or more awards annually to companies whose shares are quoted on a recognized stock exchange in the United Kingdom, in relation to the form and contents of the reports and accounts as issued to their members.

The factors which will be considered by the panel of judges will include the adequacy of the information given and its presentation.

Companies are requested to send, for consideration, copies of their reports and accounts (with any chairman's statement circulated therewith) to:

The Secretary, *The Accountant* Annual Award,
4 Drapers' Gardens,
Throgmorton Avenue,
London, EC2.

These should be sent at the time of publication for the 1954 award it is requested that they so as to reach the secretary not later than January 30th, 1954.

The award in 1954 will be made in respect of reports and accounts laid before the company's general meeting within the year ending December 31st, 1953, and being for the financial year or other financial period ended last preceding that date.

The panel of judges is composed of:

Mr Montagu Gedge, Q.C., *Chairman*; Mr V. Barrows, J.P., F.C.A.; Sir Harold M. Barton, J.P., F.C.A.; Lord Latham, J.P., F.A.C.C.A.; Mr Thomas I. M.A., C.A.; Mr Bertram Nelson, J.P., F.S.A.A.; Mr Tyser; Mr Derek du Pré, Editor, *The Accountant*.

NOTES AND NOTICES

The Accountant

INDEX TO VOL. CXXIX: JULY-DECEMBER 1953

The general index to this volume - July to December 1953, Vol. CXXIX - will be published with the first part of the next volume, dated January 2nd, 1954. The parts of this volume should therefore not be sent for binding until the index has been added to them.

Personal

MR LLEWELYN H. WRIGLEY, F.C.A., of Copthall House, 13 Copthall Avenue, EC2, practising at that address as LLEWELYN H. WRIGLEY & Co, Chartered Accountants, announces that he has no connection whatsoever with any other firm.

MR D. LEIGH, Incorporated Accountant, announces that with effect from January 1st, 1954, he is commencing public practice under the style of DAVID LEIGH & Co, at 64 Aldermanbury, London, EC2.

MESSRS JAMES MESTON & Co, Chartered Accountants, announce that they are assuming two additional partners on January 1st, 1954: in their Aberdeen office, 6 Golden Square, Mr W. A. H. REID, C.A., and in their London office, 1 Leadenhall Street, Mr J. S. MARTIN CLARK, A.C.A.

Obituary

ELLIOT TENNENT NICHOLSON, F.C.A.

We have learned with regret of the recent death of Mr Elliot Tennent Nicholson, F.C.A., a former member of the Council of the Institute and senior partner in the Liverpool firm of Harwood Banner & Son (now Harwood Banner, Lewis and Mounsey.)

Mr Nicholson, who was 81 years of age, was educated at Liverpool College, of which he was later

to become a life governor, and was admitted Associate of the Institute in 1894; he was elected Fellow in 1908.

He became a partner in his firm in 1903, and senior partner from 1918 until his retirement in December 1945. He was elected to the Council of the Institute in April 1927, and remained a member for nearly fifteen years before resigning in January 1942. He was President of the Liverpool Society of Chartered Accountants in 1929-30.

An international rugby player, Mr Nicholson toured Australia in 1899 with the Rev. Mullin team and played for Great Britain in two of the internationals against Australia.

In Parliament

DIRECTOR-CONTROLLED COMPANIES: DIVIDENDS. Mr ROY JENKINS asked the Chancellor of the Exchequer why director-controlled companies formed after 1948, are allowed by the Inland Revenue to pursue a less conservative dividend policy than those formed before this date.

Mr R. A. BUTLER: I think the hon. Member will be under some misapprehension, for the Inland Revenue have no power to control the dividend policy of companies.

Hansard, Dec. 15th, 1953. Oral Answers. Commons.

CHRISTMAS BONUSES: TAX CONCESSION

Sir E. BOYLE asked the Chancellor of the Exchequer whether he proposes to continue this year the existing statutory concession under which savings certificates given by employers to employees as Christmas presents in lieu of customary gifts in kind are charged to income-tax.

R. A. BUTLER: Yes. As the hon. Member will be, Christmas bonuses paid to employees are, the law, liable to income-tax whether the payment is made in cash or in something such as gift certificates which can be turned into cash. An extra-statutory concession was, however, introduced during the war under which tax was not levied on gifts in the form of savings certificates, gift stamps, national savings gift tokens or credits to employees' savings bank accounts to subordinate employees by employers who previously had been in the habit of making Christmas presents in goods of an equivalent value. I have authorized the application of this concession for Christmas, but the special concession which justified the concession during the war in post-war years have largely ceased to exist, and I shall not be able to authorize its continuance in future years.

17th, Dec. 15th, 1953. Written Answers. Col. 23.

Chartered Accountant Member of Coal Board Inquiry

I. A. Benson, C.B.E., F.C.A., a partner in the firm Cooper Brothers & Co, Chartered Accountants, is one of five persons who have agreed to assist in an inquiry which the National Coal Board is making into its organization.

It was announced by the Minister of Fuel on October 15th that the inquiry is being made with a view to learning what measures can be introduced to increase administrative responsibility at all levels down to pit level.

Agricultural Marketing: Consumers' Committee

L. G. Leach, C.B.E., F.C.A., a partner in the firm Leach, Marwick, Mitchell & Co, has been appointed a member of the reconstituted consumers' committee for England and Wales provided for under the Agricultural Marketing Acts. The eight members of the committee are under the chairmanship of Sir George Schuster, K.C.S.I., K.C.M.G., C.B.E., M.C.

Stock Exchange Members' Accounts

The Council of the Stock Exchange has issued a report, dated December 7th, 1953, as follows:

The census taken in 1951 revealed that over 80 per cent of members and member firms employed independent professional accountants in connection with their accounts.

As a corollary to the establishment of the Compensation and the Council consider it to be in the best interests of the Stock Exchange that all firms and members

trading on their own account should have their annual balance sheets prepared by an independent accountant, or firm of accountants.

It is not intended that such balance sheets should either be certified by the accountants or be produced to the Council but it is proposed that provision shall be made requiring members who are partners in firms to declare on applying for re-election for the years commencing 1955-56 that accounts of the respective firms have been prepared and presented in accordance with the provisions of Rule 79a.

The Council have, therefore passed the following new Rule 79a, subject to confirmation on January 4th, 1954:

79a. Every firm or member trading on his own account shall once at least in every calendar year cause to be prepared by a qualified accountant* (independent of the firm or member) a balance sheet showing the state of affairs of the firm or member as at the date of completion of such firm or member's financial year. Such balance sheet shall be submitted to the said firm or member not more than six months subsequent to such date.

* i.e., a member or firm whose members are members of one of the following bodies:

The Institute of Chartered Accountants in England and Wales; or
The Society of Incorporated Accountants and Auditors; or
The Institute of Chartered Accountants of Scotland; or
The Association of Certified and Corporate Accountants.

Report on Trade Unions

The *Report of the Chief Registrar of Friendly Societies for the year 1952 - Part 4, Trade Unions* was published recently.¹ It deals with the work of the Chief Registrar's department under the Trade Union Acts and the operations of trade unions during 1952.

Union of Chartered Accountant Students' Societies

The annual conference of the Union of Chartered Accountant Students' Societies was held at Liverpool on December 11th and 12th. Forty-seven delegates took part, representing twenty-three students societies. The subjects discussed included:

The meeting of the Union Liaison Committee with members of the Council of the Institute; the decision of the Council on the proposals for an accountancy school and for a mutual assistance scheme for students societies; the expenditure incurred in connection with the Union conferences; the Union panel of lecturers; the Union essay competitions; the alteration of students societies' accounting dates; financial help to students societies; standardization of conditions under articles; the terms of the examinations syllabus in regard to new legislation; the time of commencement of the Final examination; attendance at students societies' meetings; difficulties in obtaining officers for students societies; exchange of library books; a proposal to alter the name of the Union; the circulation of information

¹ H.M.S.O. is 3d net.

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about societies' activities; a design for a tie for members; industrial films available for students.

The conference received the report of its Liaison Committee on their meeting with members of the Council of the Institute and reappointed the committee to be available to discuss further with members of the Council matters raised at the conference and any other questions affecting articulated clerks which might usefully be considered.

On the first evening of the conference a dinner was given by the Liverpool Students Society, at which Mr D. V. House, F.C.A., the Vice-President of the Institute and several members of the Council were present. Valuable opportunities occurred for personal contact and the exchange of experience between delegates.

The Law Affecting Accountancy

Under the title *A current digest of the law affecting accountancy*, the Incorporated Accountants' Research Committee has recently published the first issue of a new Practice Note.

The digest records case law decisions and statutory enactments which bear upon the work of accountants and summarizes the case law in a convenient form.

It is proposed to issue the digest at least three times a year.

Mansfield Law Club

The following programme of meetings has been arranged for the New Year by the Mansfield Law Club. The meetings will be held on alternate Thursdays at 6 p.m. at the City of London College, Moorgate, EC2:

January 14th: 'The reform of commercial law in England', by Mr Clive M. Schmitthoff, LL.D., Barrister-at-Law, M.I.B.E.

January 28th: 'The law and banking', by Mr Maurice Megrah, Barrister-at-Law, secretary of the Institute of Bankers.

February 11th: 'Famous criminal trials in England', by Mr J. P. Eddy, Q.C., stipendary magistrate of East and West Ham.

February 25th: 'Modern marine insurance practice', by Mr A. W. Emery, marine claims director, Price, Forbes & Co Ltd.

March 11th: 'Commercial law and common law', by Mr Richard O'Sullivan, Q.C.

March 25th: 'The law of commercial arbitration', by Mr Andrew J. Bateson, Barrister-at-Law.

May 6th: A moot on company law. In the chair: Mr R. J. S. Thompson, B.A., Barrister-at-Law.

May 20th: 'The reasonable business man and the law.' In the chair: Mr John Beswick, M.A., Barrister-at-Law, secretary and legal adviser to Mullard Ltd.

June 3rd: General meeting. Election of officers and discussion of programme for 1954-55.

Visitors are invited to all meetings. Tea will be available in the buffet adjoining the Hall (Room 114) from 5.30 p.m. onwards.

Mathematical Crossword Solution

The solution of the mathematical crossword problem compiled by Mr Gordon S. Moorhouse appeared in last week's issue is given below. Open figures (where applicable) are shown in brackets followed by the actual answer.

ACROSS: 1. (2) 16777216; 9. (55) 13; 11. (41) 6; 12. (25) 625; 13. 97; 14. (23) 529; 15. (13) 55; 16. 17. (626) 391876; 20. (37) 1369; 21. (3) 729; 24. (6) 25. (22) 946; 26. (3) 75; 27. (8) 512; 28. (42) 74688; (885) 783225; 32. (12) 144; 33. (4) 20; 34. (14) 518; 35. 301; 36. (5) 55; 37. 98; 38. (46) 2116; 40. (15) 3375; 43. 49; 44. (2) 131072; 45. (8 and 4) 64.

DOWN: 1. (55) 166375; 2. (19) 6859; 3. (89) 79; 4. (9) 729; 5. (55) 715; 6. (163) 26569; 7. (3) 129140; 8. (4) 65536; 9. (44) 1936; 10. (335) 37595375; 18. 83521; 19. (29) 707281; 22. (467) 218089; 23. (961) 923; 26. (28) 784; 29. (5) 45; 30. (29) 841; 31. (27) 729; 35. 360; 36. (24) 576; 39. (55) 13; 41. (2) 32; 42. (55) 54.

Our Contemporaries

OXFORD ECONOMIC PAPERS. (October.)

LA REVUE BELGE DES SCIENCES COMMERCIALES. (Brussels) (September-October.)

DER WIRTSCHAFTSPRÜFER. (Berlin.) (December.)

ENGINEERING INDUSTRIES BULLETIN. (December.)

SEVENTY-FIVE YEARS AGO

FROM *The Accountant* OF DECEMBER 28TH, 1879

The Institute of Accountants

At a meeting of the Council of this Institute on Friday, the 20th December, the Secretary reported that the various country Societies and Institute of Accountants had, in response to an invitation from the Council, agreed to send deputations to co-operate with them with the object of ensuring that the subject to be introduced into Parliament, should be framed as to promote the interests of the members of those Societies, and of the whole profession. Arrangements were made for holding the conference early in January.

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